

**The political economy of neo-liberalism in Italy and France**

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# The political economy of neo-liberalism in Italy and France<sup>1,2</sup>

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## Abstract

There are many apparent similarities between the current political and economic situations of France and Italy. The mainstream view is that at least part of the neo-liberal strategy could be a solution to the economic problems of both variants of the European model of capitalism. However, the difficulties met by the implementation of these strategies by Sarkozy and Berlusconi lead to believe that the success or failure of neo-liberalisation has less to do with its (lack of) macroeconomic merits than with the stability of the socio-political alliances that support it. In this respect, France and Italy are markedly different. This paper shows that even if the 'hard core' of the neoliberal social bloc is roughly the same in both countries, this core constitutes a minority of the electorate; a neoliberal strategy must therefore rely on an extended social coalition, which might not be similar between countries. The Great Recession revealed part of the structural characteristics that set both countries apart. The aim of this article is to show that the consideration of the different socio-political alliances found in each country can help to understand how Italy and France ended up on different economic trajectories.

**Keywords:** institutions; model of capitalism; neoliberal reforms; political crisis

**JEL codes:** P16; P51; B52

## Résumé

Il y a beaucoup de similitudes entre les situations politiques et économiques actuelles de la France et de l'Italie. L'opinion dominante est que la stratégie néolibérale pourrait, au moins en partie, résoudre les problèmes économiques de ces deux variantes du modèle de capitalisme européen. Mais les difficultés rencontrées par la mise en œuvre de ces stratégies par Sarkozy et Berlusconi portent à croire que le succès ou l'échec du néo-libéralisme a moins à voir avec son (manque de) mérite macro-économique qu'avec la stabilité des alliances socio-politiques qui le soutiennent. À cet égard, la France et l'Italie sont nettement différentes. Cet article montre que même si le « noyau dur » du bloc social néolibéral est similaire dans les deux pays, ce noyau constitue une minorité de l'électorat ; une stratégie néolibérale doit donc s'appuyer sur une coalition sociale élargie, qui pourrait ne pas être semblable d'un pays à l'autre. La Grande Récession a révélé une partie des caractéristiques structurelles qui distinguent les deux pays. Le but de cet article est de montrer que l'examen des différentes alliances socio-politiques dans chaque pays peut aider à comprendre comment l'Italie et la France ont abouti sur des trajectoires économiques différentes.

**Mots-clefs:** crise politique ; institutions ; modèles de capitalisme ; réformes néolibérales

**JEL codes:** P16; P51; B52

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## 1. Introduction

France and Italy are two interesting case studies of institutional change. Both countries are somewhat similar in terms of their economic institutions: they are variants of capitalism in Europe (Amable 2003), France being close to the Continental model and Italy close to the Mediterranean model, or were considered as examples of 'state-led capitalism' (Schmidt 2002).

From the 1980s on, numerous institutional reforms have been undertaken in both countries: in the financial sector, the product markets, the labour market, the welfare system etc. The most common interpretation is that these reforms were a national response to exogenous economic changes affecting capitalism in general and taking place at the international level, including the process of economic globalization and European unification. However, according to this interpretation, the reforms, which are commonly presented as 'necessary', have met political obstacles in both countries. This explains why institutional change has not yet resulted in consistent and economically efficient systems.

This interpretation is largely present in the business press. For example, analyzing the action of the centre-left Italian government in February 2007, *The Economist* noted that "[m]ore competition and less regulation are sorely needed in Italy", and quoted a government minister to explain why the reforms were not implemented fast enough: for Emma Bonino, the Europe minister, "if we were Milton Friedman's [kind of] government, we'd do more. But we're not. This is a government that looks for compromise".<sup>6</sup> A year later, *The Economist* assessed in the following terms the prospects of the third Berlusconi government: "given the populist tendencies of the prime minister's alliance and the likelihood that coalition divisions will come to the fore, hopes for a radical change in economic policy that will dramatically improve Italy's growth performance and fragile public accounts are likely to prove unfounded".<sup>7</sup>

A similar diagnosis was drawn for France. There, the obstacles to structural reforms would primarily be "[t]he fearsome power of the French street".<sup>8</sup> *The Economist* put great hopes in N. Sarkozy's ambitious structural reforms plan: "[Sarkozy] pledged to get France back to work, to scrap exorbitant public-sector privileges, to cut taxes and to set free a strangled labour market. [...] Mr Sarkozy was admirably clear about his intentions, and he won an equally clear electoral mandate in May." Following this, *The Economist's* advice to Sarkozy was: "Don't give in". However, because "Mr Sarkozy is by nature a deal-maker, a man disposed always to look for compromise", the fear was that "in the confrontation that he now faces" he would back away from the promised reforms.

The vision of a reform process made indispensable by the international economic constraints but which faces obstacles in the national political sphere is not only present in the mass media; it is also markedly dominant in academic research. For instance, for Simonazzi *et al.* (2008), "Italy must still make the macroeconomic adjustments required by participation in the EMU [European Monetary Unification] and the challenge of globalisation" but "the progress of reforms [...] has been hindered by lack of consensus within politically weak coalitions subject to the veto power of various interests" (Simonazzi *et al.* 2008: 1). Similarly, for Della Sala (2004) "Italy provides an interesting case study to examine the discussion about the persistence, adaptability or transformation of national models of capitalism in the face of external pressures" (Della Sala 2004: 1042, *our emphasis*). However, more than a genuine transformation of Italian capitalism one would face "an ongoing process of constant adaptation that does not affect the basic structures of the governing of the Italian economy" (Della Sala 2004: 1046), a "process of change without transformation" (Della Sala 2004: 1049). The outcome of this reform process would not be an efficient and coherent model of

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<sup>6</sup> "Italy's reform programme: Two steps forward", *The Economist*, 1 February 2007.

<sup>7</sup> "Reforms in Italy", *The Economist*, 29 May 2008.

<sup>8</sup> "France: Sarkozy's Thatcher moment", *The Economist*, 15 November 2007.

capitalism: “reforms have not tackled the structural weaknesses of the Italian model, namely its specialization pattern, the North-South divide, and the dualism in social protection” (Simonazzi *et al.* 2008: 2), “Italy remains a form of dysfunctional state capitalism” (Della Sala 2004: 1054).

The situation of France is usually considered in a somewhat less pessimistic way. By the early 2000s, it was widely acknowledged that France was “no longer a statist political economy” (Culpepper 2006). The increase in competition entailed by the transformations in the international environment (globalization of firms’ activities, European economic integration...) had made it necessary to abandon the nation-centred ‘dirigiste’ model: “[i]n response to a more open European economy, France made its markets more competitive and increased its level of social protection at the same time” (Hall 2007: 56). But this new configuration is not without creating problems. “France has needed two sets of reforms—a first set of reforms to get rid of dysfunctional *dirigisme* and a second set of reforms to address some of the problems stemming from the first set of reforms, from social anaesthesia measures” (Levy 2008: 429-430). France may have become a productive economy, but rates of growth remained low and unemployment high. A new set of reforms would be necessary to “move beyond the social anaesthesia model”; but efforts in this direction “have often failed in the face of popular resistance” (Levy 2008: 430). Optimism should nevertheless prevail since over the past six decades, “adjustments have been anything but easy and have been accompanied by considerable protest and conflict, but somehow, the French have always managed to make the necessary changes” (Levy 2008: 430). Another reason for optimism is President Sarkozy and the conditions surrounding his election in 2007, on the promise of a ‘rupture’ if elected. However, “[i]t is by no means clear that Sarkozy is the man to turn France around. [...] The president seems to be vacillating between a genuine effort to modernise France and electorally motivated pay-offs to conservative constituents that weaken the economy and antagonise the unions.” But “sooner or later, French leaders, whether Sarkozy or an eventual successor, will bite the bullet and make the changes, however painful and unpopular, that are necessary to restore the country’s economic vitality” (Levy 2008: 432).

There is therefore a broad consensus on the need to reform the French and Italian models of capitalism. This necessity is supposedly imposed by exogenous constraints related to the transformations affecting capitalism, globalization and European unification. Reforms are however allegedly thwarted by the weakness of the political coalitions that should carry them out. Such an interpretation is reinforced by the fact that in spite of the respective neoliberal programs on the basis of which Sarkozy was elected in 2007 and Berlusconi returned to power for the third time in 2008, France and Italy carry out neoliberal reforms only partially and slowly.

Another common characteristic of both countries is the existence of what will be defined as a political crisis (Palombarini, 2009). The crisis broke out in 1992 in Italy with a long series of judicial investigations that led to the disappearance of the main governing parties of that time. There were also vivid manifestations of a political crisis in France, such as the presence of the *Front National* (FN) candidate in the second round of the 2002 presidential election, or the victory of the ‘No’ in the referendum on the European constitutional treaty in 2005 against the recommendation of the vast majority of the parliament.

The most common analyses of the French and Italian political crises have highlighted the role of non-economic factors: political corruption or the fall of the Berlin Wall for Italy, insecurity and immigration issues for France.<sup>9</sup> Another interpretation, consistent with the difficulty of carrying out neoliberal reforms in both countries, is also possible: a sufficiently strong social base would not exist in either country to support the reforms made indispensable by the new international context and the evolution of capitalism. Hence the contradiction that might explain the political crisis would be that exogenous economic constraints impose reforms that are not supported by a majority of voters;

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<sup>9</sup> For example: Tiberj (2008)

the political crisis would thus be the outcome of difficulties caused by these necessary economic, political and electoral reforms.

It is indeed essential to link the political crisis and the economic reform strategy pursued by the government in both countries. However, we argue that the interpretation of the relationship between economic and political dynamics sketched above is unsatisfactory for at least two reasons. First, because the gradual opening of the Italian and French economies and even more the implication of both countries in the European integration is in a very large part the consequence of deliberate policy choices: they can hardly be regarded as purely exogenous factors that would destabilise pre-existing political equilibriums. Second, because the explicitly neoliberal programs which were electorally successful in both countries in the mid-2000s appeared after the outbreak of the political crisis. One cannot therefore consider that the neoliberal orientation of these programs is the fundamental cause of the political crisis.

The programs of a neoliberal 'rupture' in both countries in the 2000s have been designed as a response to the respective political crises. Once the formerly existing social alliances have been broken, the need to reconstitute a functional dominant social bloc has dictated the political agenda: the political crisis will therefore persist until a politically-validated strategy of mediation between social expectations is found. The strategy of a neoliberal 'rupture' can thus be interpreted as an attempt to rebuild a dominant social alliance, rather than the political expression of the difficulty to adapt to exogenous economic constraints.

If there are similarities between the two countries, there are also significant differences finding their roots in the divergent social and economic structures: the weight of the public sector and large firms in France contrast with the importance of (very) small firms and precarious workers in Italy. This paper shows that the 'hard core' of the neoliberal social bloc is roughly the same in both countries: self-employed, storekeepers, craftsmen and small entrepreneurs. However, this core constitutes a minority of the electorate; a neoliberal strategy must therefore rely on an extended social coalition. In France, Sarkozy's program of a neoliberal 'rupture' has been designed as a mediation between the expectations of the 'hard core' on one hand, and the bulk of private sector wage-earners on the other hand. In Italy, Berlusconi's strategy was to form an alliance between the 'hard core' on one hand, and the precarious and assisted classes on the other hand.

In spite of having almost identical discourses, we argue the neoliberal strategies are different in France and in Italy. Similarly, the reasons behind the difficulties and the likely failure of the neoliberal agenda in both countries are different. In the program of Sarkozy for the presidential election in 2007, the mediation among the key groups that would form the new dominant bloc consisted of the implementation of a 'French-style' flexicurity designed to allay private sector wage-earners' fears about labour market flexibility. In Italy, Berlusconi's basic commitment vis-à-vis the precarious and assisted classes depended on the ability of neoliberal reforms to foster growth and employment.

The Great Recession has posed major problems for the pursuit of the neoliberal strategy in each country. In France, the simultaneous presence of high unemployment and the need to control public debt was an obstacle to the viability of a system of 'flexicurity'. This project has been (temporarily?) abandoned by the right coalition and Sarkozy was forced to choose between an 'unadulterated' neoliberal reform corresponding to the expectations of the self-employed and small entrepreneurs, and the rejection of radical neoliberal labour market reforms likely to feed private sector employees' concern. After a long period of hesitation, the second option was favoured. This

explains both the absence of significant reforms in the labour market, and the rise of the *Front National* (FN), whose core electorate is mostly among self-employed.<sup>10</sup>

In Italy, the Great Recession has also been a problem, since by impeding growth and fuelling the increase in unemployment it has turned the precarious classes away from Berlusconi. However, if the pace of neoliberal reforms has been significantly reduced, Berlusconi did not change his priorities between meeting the expectations of the self-employed or meeting those of the assisted and precarious classes; the former have been privileged.<sup>11</sup>

These different strategic choices partly depend on the positioning of the Left-wing parties in each country. In France, the Left proposes a program involving some protection for private employees, who could otherwise defect to the Right or abstain if the Left chose a neoliberal path. In Italy, the Left has found nothing better to propose to the precarious classes than the promise of growth based on a neoliberal supply-side policy. The absence of a genuine alternative political supply makes the disappointment of precarious classes less politically costly for Berlusconi.

The article is organised as follows. Section 2 presents the relative stability of socio-political alliances until the 1980s in France and in Italy, using the concept of *dominant social bloc*. Section 3 analyses the factors that led to the breaking-up of these alliances. The difficulties met by the Left in proposing a strategy differentiated from neo-liberalism in France and in Italy are compared in the following section. Section 5 considers the respective neo-liberal options for Berlusconi and Sarkozy. A brief conclusion follows.

## 2. Political equilibrium and dominant social blocs

### a. Political equilibrium and political crisis

A situation of *political crisis* will be defined in what follows in reference to a *political equilibrium*. In the political economy approach developed in Amable (2003) and in Amable and Palombarini (2009), the viability of a socio-economic model depends on its capacity to regulate a social conflict whose roots are to be found in the differentiation of socio-economic interests of individual and collective agents, and the heterogeneity of the social expectations and demands that follows from this differentiation. As rules of the social game, the institutions specific to a given model of capitalism play a major role in the possible regulation of the social conflict. Indeed, institutions (i) contribute to structuring socio-economic relations; (ii) organise the political representation space, i.e. the space within which political supply will compete; (iii) delineate, through the constraints that they define, the strategy space available to political actors in their search for a successful mediation; (iv) condition the impact of public policies on economic dynamics and, consequently, on social demands.

The analysis of the links between the institutional, economic and political dynamics is based on a few theoretical concepts. A situation where social conflict is regulated is defined as a *political equilibrium*, i.e. a situation where the contestation stemming from social groups whose demands have been disregarded by the political leadership is limited to a minority position in the political representation space or repressed with the help of legitimate violence. 'Dominant' social groups, i.e. those whose demands are taken into account in the definition of public policy, form in such a situation a *dominant social bloc* (DSB). Therefore, social conflict is regulated and a political

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<sup>10</sup> At the local elections of March 2011 the *Front National* (far right) obtained 15.2% of the vote, the UMP (Sarkozy's party) 17%. According to a survey from Opinionway, the score of the FN among self-employed would be 37% against 25% for the UMP. However, the UMP obtained 33% of the votes of private sector employees against 11% for the FN (Poll OpinionWay - Fiducial for LCI: Profile of abstainers and voters, and motivations of the vote, 20 March 2011).

<sup>11</sup> This also explains the extreme modesty of the anti-recession plan in 2009/2010 in Italy.

equilibrium exists when there is a stable DSB composed with different social groups that support the strategy of political mediation implemented by political actors.

The role of political leadership is to select among social demands those that will be satisfied and those that will be left unsatisfied. Several parameters influence this political decision: resource availability and the macroeconomic context, the specific content of the demands and their reciprocal compatibility... But the main criterion that political actors take into account is the ability of the different social groups to supply electoral and more generally political support in exchange for the satisfaction of their demands. Political actors, e.g. parties, need support in order to strengthen their position in the competitive field of partisan representation. A social conflict is regulated when the strategy of the governing party or coalition permits to obtain the support necessary for political validation, i.e. when social and political contestation is not sufficient to destabilise political leadership or force it to change its course.

A *political crisis* is a situation where there is no room for political mediation between social groups belonging to the dominant bloc within a given institutional structure. The existing institutional structure may prevent not only the renewing of the former dominant social bloc but also the emergence of *any* new dominant bloc. One must distinguish between a situation of political crisis, corresponding to the break-up of a given dominant bloc, and a situation of *systemic crisis*, in which political actors experience difficulties in finding some institutional change strategies in order to aggregate a social bloc that could become dominant. Such a situation is marked by a high degree of instability. No political strategy is able to generate the political support it needs to stabilise a given political leadership.

In a situation of *systemic crisis*, strategies aiming to reconstruct or stabilise the former DSB or to form a new DSB must include some institutional change, which means questioning past compromises and reopening some previously settled social conflict. This is a period where political leadership is bound to intervene more directly, in order to find a way to aggregate enough groups in a new bloc. This intervention could also lead to an aggravation of the situation of some groups and threaten their existence as such, through an intensification of the divergence of interests within each group.

This theoretical position leads to reconsider the concepts of *complementarity* and *hierarchy* of institutions. From a social group's point of view, two institutions are complementary when their joint presence favours the protection of the interests that define the group. From the point of view of a given political strategy, complementarity is defined in reference to the formation of a specific dominant social bloc. The joint presence of institutions should permit to widen the space for political mediation between groups liable to form the DSB. These two types of complementarity do not necessarily associate the same configuration of institutions.

The *hierarchy* among institutions can be defined with respect to the importance that an institution has for a social group or for the stability of a political compromise. For a socio-political group, hierarchically superior institutions are those that matter most for the interests of the group. Hierarchy from the point of view of political mediation refers to the question of the formation of social alliances and the establishment of a dominant social bloc. In a political equilibrium, an institution is all the more important that its questioning or alteration would imply difficulties for the existence of the dominant compromise. In equilibrium, the dominant compromise and hierarchically superior institutions validate each other; institutions are instrumental in the establishment of the compromise and, in return, dominant groups politically validate these institutions.

#### *b. Social alliances before the crisis in Italy and in France*

The socio-political alliances before the political crises in Italy and in France are briefly presented below. The main characteristics are summed up in Tables 1 and 2.

For Italy, one should consider the existence of at least five different groups (Palombarini 2001). The first one includes the large private companies, traditionally established in the Genoa-Milan-Turin triangle. The political demand of large firms can be summarised in three elements: a macroeconomic configuration that ensures the international competitiveness of their production; a model of industrial relations functional to their objectives; a public intervention in terms of direct support of the effective demand and various transfers.

The second group consists of the employees of these large companies. Following the definition of sociologist Arnaldo Bagnasco they form the 'central' working-class, which is unionized and, until the late 1980s, politically represented by the communist party. Interests shared by group members are the preservation (or growth) of real wages and pensions, the fight against unemployment and the protection of the guarantees specified in the Workers' Statute.

Small entrepreneurs and their employees may be considered as part of one and the same group. Small and medium size enterprises have built their success on the ability to overcome the limits of the Taylorist organisation prevailing in large industrial firms. They combine the typical flexibility of small businesses with the exploitation of economies of scale in the industrial district. These features and the low rate of unionization of workers in the Italian northeast explain why the political demand of the workers of this part of the country is summed up by the competitive viability of the firms that employ them.

The interests of small and medium size firms are partly complementary to those of large firms. The integration between the production cycles of the two sectors remains considerable. But compared to the old Fordist industries, medium- and small-size firms are more export oriented. Moreover, public sector demand is rarely addressed to their productions. Finally, they have less need for a mediation of the State in their management of industrial relations. The political demands of the group are therefore more related to factors determining export competitiveness (labour costs, interest rates, exchange rates, etc.), and less to public resources put into play by the budgetary policy of the government. The answer to the expectations of the social classes related to the bureaucracy, the administration and public firms (which form the fourth group), which are mostly present in the southern regions of the country, is on the other hand connected to public resources directed in support of their income and fiscal policy.

The last political demand one may consider comes from the classes linked to rents, requiring high interest rates, the development of the stock exchange and a strong supply of public bonds. The *rentiers* are highly concentrated in the North of the country (and more particularly in the 'industrial triangle').



Table 1. Italy: socio-political groups in the 1980s.

	<b>Socio-political group</b>	<b>Most likely location</b>	<b>Political demand</b>
Dominant Social Bloc	Large industrial firms	Milan-Torino-Genoa	<ul style="list-style-type: none"> <li>• Macroeconomic policy favourable to competitiveness</li> <li>• State intervention in social bargaining</li> <li>• Public intervention for sustaining effective demand and various transfers (<i>Cassa integrazione</i>, fiscal measures...)</li> </ul>
	Small firms and their employees	North-East and Centre	<ul style="list-style-type: none"> <li>• Macroeconomic policy favourable to competitiveness</li> </ul>
	Assisted classes, bureaucracy and public firms	Centre and South	<ul style="list-style-type: none"> <li>• Public transfers</li> </ul>
	Classes linked to rents and the financial sector	North	<ul style="list-style-type: none"> <li>• High interest rates</li> <li>• Strong supply of public bonds</li> <li>• Development of the stock exchange</li> </ul>
Excluded from the dominant bloc	Large firms' employees	Milan-Torino-Genoa	<ul style="list-style-type: none"> <li>• Increase in real wages</li> <li>• Fight against unemployment</li> <li>• Protection and extension of social rights</li> </ul>

To sum up, the dominant social bloc in Italy in the 1980s was an alliance between large and small firms, the classes depending on transfers and the public sector (Palombarini 2001; 2003). The stability of this alliance was made possible by the growth of public debt, an element which would eventually prove to be destabilising. The employees of the small firms, having their interests aligned with those of their employers, were included in the dominant bloc. Large firm employees on the other hand were excluded from this bloc and had their vote partly 'frozen' on the communist party (PCI).

Table 2. France: socio-political groups in the 1980s.

		Socio-political group	Political demand
	Right bloc	Independents	<ul style="list-style-type: none"><li>• Low tax level</li><li>• Limits to redistributive social protection</li></ul>
		Private sector executives	<ul style="list-style-type: none"><li>• Low tax level</li><li>• Public intervention to support competitiveness</li></ul>
		Farmers and agricultural workers	<ul style="list-style-type: none"><li>• Public transfers, CAP</li><li>• Protection w.r.t. extra-European competition</li></ul>
		Private sector white collars	<ul style="list-style-type: none"><li>• Increase in real wages</li><li>• Macroeconomic policy sustaining effective demand</li><li>• Social protection</li></ul>
Left bloc		Public sector employees	<ul style="list-style-type: none"><li>• Public intervention</li><li>• Macroeconomic policy sustaining effective demand</li><li>• Increase in real wages</li></ul>
		Private sector blue collars	<ul style="list-style-type: none"><li>• Increase in real wages</li><li>• Macroeconomic policy sustaining effective demand</li><li>• Nationalisations</li><li>• Social rights and social protection</li><li>• Protection w.r.t. external competition</li></ul>

The situation was different in France (Guillaud and Palombarini 2006). Large firm employees were a key group in a context where two blocs alternatively dominated the political life since the early 1980s. The socio-political landscape of France in the 1980s was, compared with that of today, relatively simple: two very different social alliances with expectations differentiated by means of well identified political organizations.

The left bloc, which gathered the majority of the employees of the public sector and the working class, was represented by the socialist party (PS) and the other left-wing parties, in particular the communist party (PCF), which were allied in the perspective to govern as a coalition. The expectations of this bloc were a larger State intervention in the economy, more regulations of the

employment relationship and an increase in the standard of living of the categories of the poorest wage-earners.

The right alliance gathered the private sector executives (managers and associate professionals), liberal professions, the independents (storekeepers and craftsmen) as well as the majority of the agricultural world. It was represented by the Gaullist party and its liberal allies. The expectations concerned State intervention as an industrial strategy protecting the national interests, i.e. French firms. This bloc was opposed to (further) nationalisations, which represented an essential point of the government program of the left. The differentiation of the right bloc from the left alliance also concerned the redistributive action of the State; the left alliance wishing to decrease the disparities of incomes by increasing taxes, the right alliance preferring a decrease in taxes even at the cost of an increase in inequality.

The main differences between the two countries are worth emphasising: in France there were two social blocs represented by two different political coalitions which held power in turn. There was, until the 1990s, only one bloc in Italy. The employees of the private sector occupied a central position in France, particularly those employed in large firms. This group was excluded from the political exchange in Italy. Two main reasons can explain these differences: (1) political factors, including international relations aspects: there was a *conventio ad excludendum* against the Italian communist party (PCI), not unlike what took place under the 4<sup>th</sup> Republic in France; (2) socio-economic factors: large firms play a considerably more important role in France in terms of GDP and employment than in Italy, which implies a larger political weight for their employees.

### **3. The break-up of the dominant social blocs**

#### *a. The break-up of the dominant social bloc in Italy*

The political crisis broke up in Italy in 1992. It first appeared as a consequence of the widespread and organised political corruption, unveiled in broad daylight by a series of criminal investigations, the most important being known as *Mani Pulite*. However, the events that followed each other over the years showed that the problem was not only a matter of ethical criticisms addressed by the 'civil society' to the ruling elites. Neither was it a consequence of the 'atypical' configuration of the Italian political party structure: an important communist party excluded by necessity from government, and a Christian-democratic party assuming by necessity all the inter-class compromises. Indeed, according to this latter view the 1992 crisis would be a side effect of the fall of the Soviet Union and its impact on Western communist parties.

This view is not satisfactory. First, all the parties of what is now called the 'first Republic' disappeared following the events of 1992, including those parties which were not involved in corrupt practices. Second, political instability carried on well beyond the considerable renewal of the ruling classes: no incumbent government was re-elected between 1992 and 2011. Finally, if one persisted in seeing the crisis of the early 1990s as simply the result of a revolt against moral corruption or a mere consequence of the fall of the Berlin wall, it would be difficult to account for the changes that followed the crisis and altered the Italian socio-economic structure (see Appendix Table A1).

In the political sphere, the proportional voting system was abandoned, the powers of the executive greatly increased, and an important administrative decentralization process was initiated. In the economy, privatizations dismantled the system of public companies, which had for sixty years played a major role in the organization of Italian capitalism. The system of PAYG pensions partly gave way to a funded system. The labour market was significantly liberalized. The most important sectors of the economy were opened to competition.

The amazing duration and the profound effects of the Italian 'transition' can be understood if one analyses the political crisis of the early 1990s as the consequence of the breaking-up of the

dominant social bloc over the previous decades. The social groups of the dominant bloc carried very heterogeneous expectations. Large industrial firms in the North were benefiting from public expenditure linked to industrial restructuring (including the *Cassa integrazione* mechanisms). The assisted classes in the South benefited from transfers. These expenditures were not financed by a rise in taxation, to which the Northern social groups were opposed. It should be noted that the fight against the 'fiscal burden' will become a major theme of the Northern League (*Lega*) from the mid-1980s on. Public debt was therefore the main adjustment variable between the various demands of these groups: relative to GNP, its weight doubled between 1981 and 1993 (Figure 1). At the same time, the rise of public debt was welcomed by the *rentier* group since it guaranteed them a risk-free income with rising profitability.

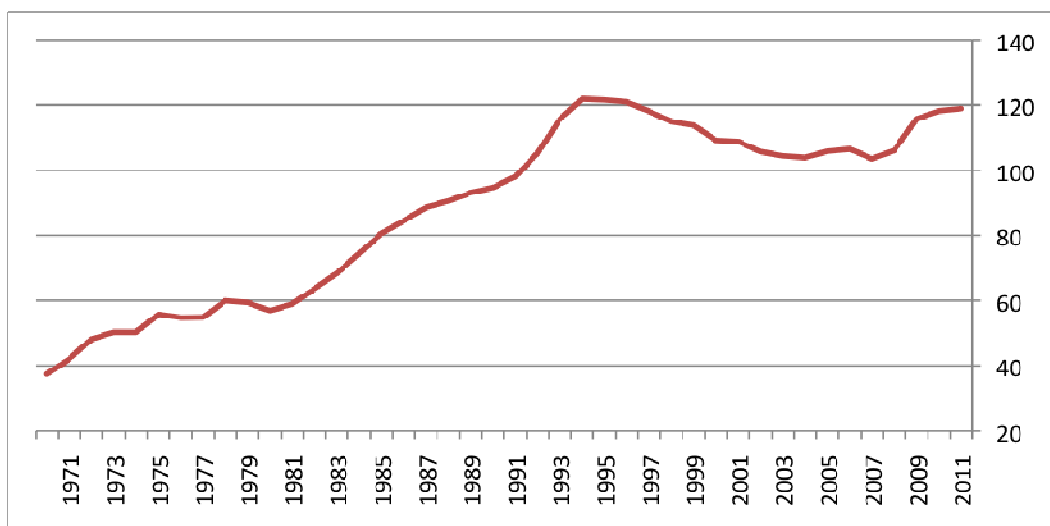


Figure 1. Italy: public debt as a percentage of GNP.

During the 1980s, the economic policy regime favoured the domination of employers in labour relations and combined three factors. (i) A relatively expansionary fiscal policy: as seen in Figure 2, Italy's budget policy in the mid-1980s was rather expansion-oriented and counter-cyclical. (ii) The rigidity of exchange rates: the Italian currency entered the narrow-band mechanism of the European Monetary System (EMS) in 1989 and started to stabilise its currency in the mid-1980s; the EMS functioned as a quasi fixed exchange rate system, and this imposed strong constraints on economic policy. (iii) Low real wage protection against inflation: since 1984 the inflation indexation mechanism (*scala mobile*) was weakened.

Factors (ii) and (iii) made any conflicts over wages and inflation very costly for trade unions, which were also weakened by the restructuring that took place in the manufacturing industry in the late 1970s and early 1980s. The expansionary policy thus benefited primarily to groups within the dominant social bloc.

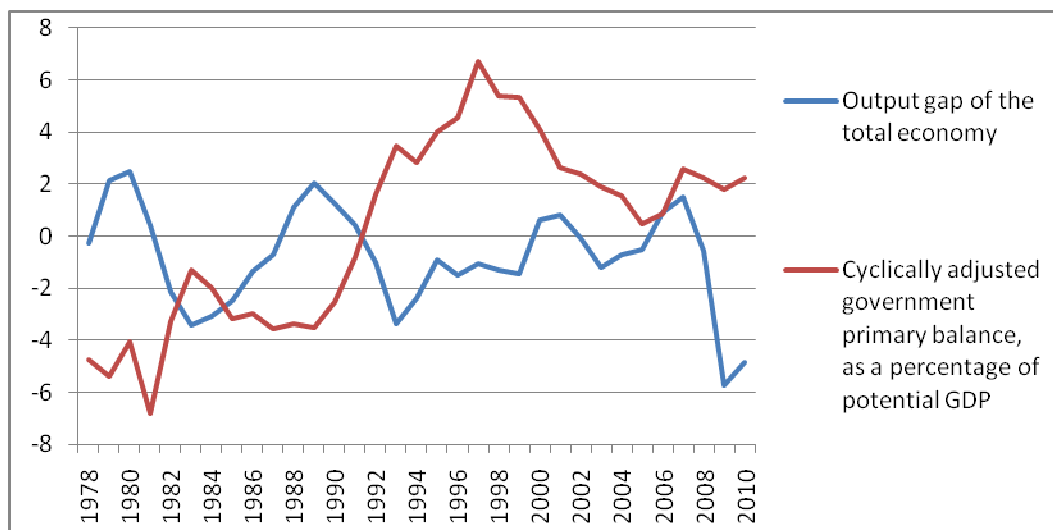


Figure 2. Italy's discretionary fiscal policy.

From the mid-1980s on, the political mediation between the dominant expectations produced a series of contradictions.

- (a) The rise of the socio-economic interests related to financial rent within the dominant social bloc (Figure 3).<sup>12</sup> The increased weight of these groups made the political mediation more complex since their interests conflicted with those of firms, notably on the value of the real interest rate.

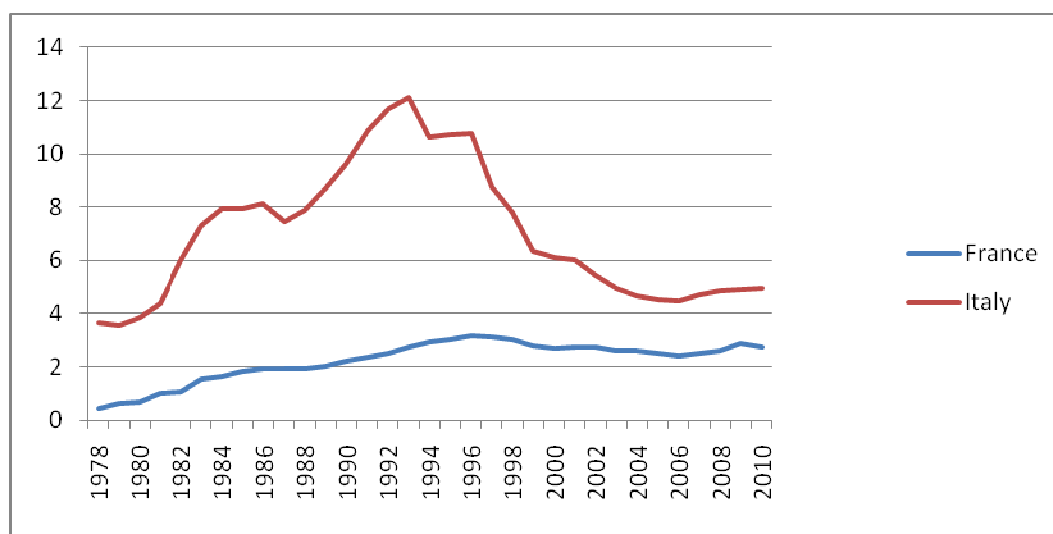


Figure 3. Italy/France: net government interest payments, as a percentage of GDP.

- (b) The rise of interest rate levels (Figure 4): this evolution was positive for the interest groups linked to rent but detrimental to those linked to industry.

<sup>12</sup> For a complete analysis of the weight of the financial rent on the distribution of income in Italy, see Alvi (2006).

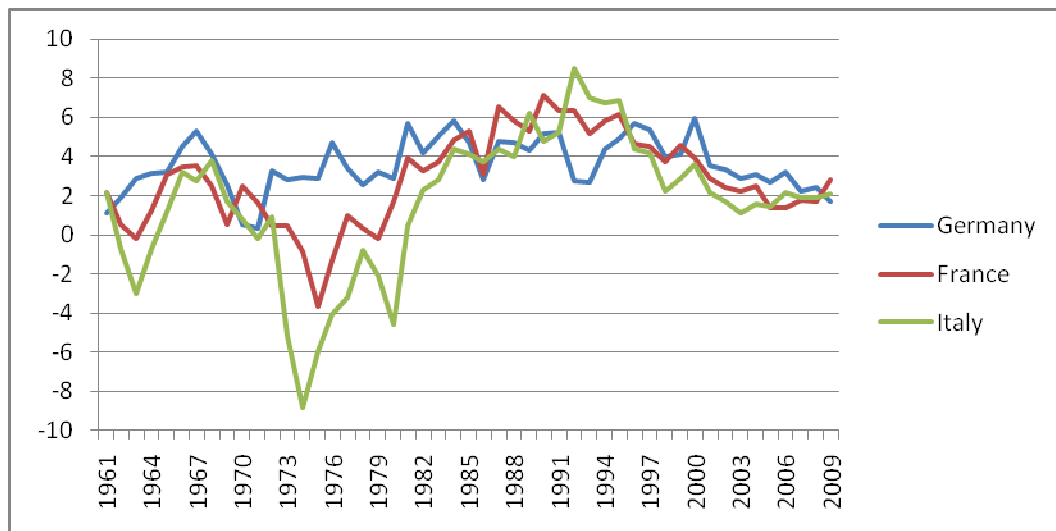


Figure 4. Italy/France: long-term real interest rates.

- (c) Exchange rate rigidity without cooperative industrial relations led to a worsening of Italy's competitiveness, as can be seen in the rise of the real exchange rate (Figure 5).

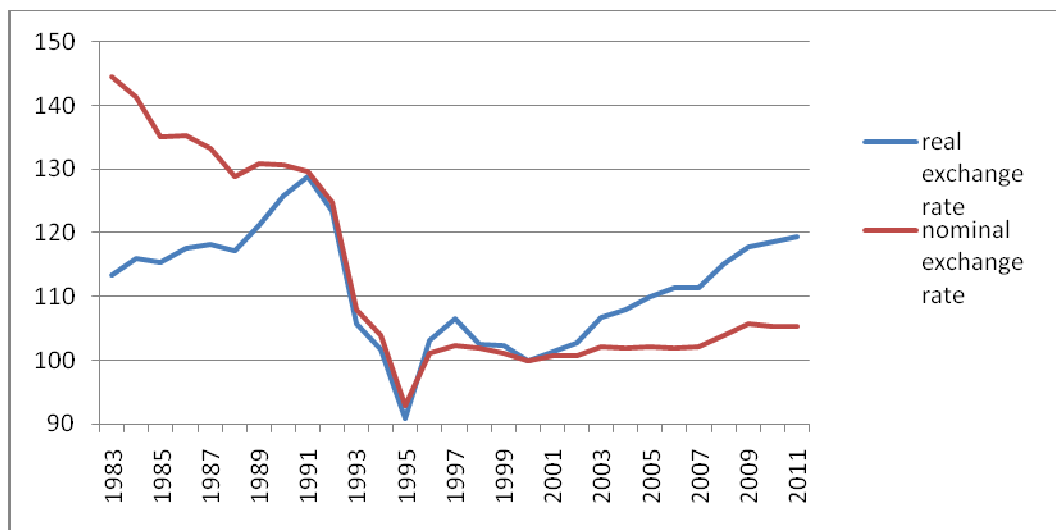


Figure 5. Italy: real and nominal exchange rates. Performance relative to the rest of the former EU-15: double export weights. 2000=100.

The growing importance of interest groups related to rent, higher interest rates and the loss of external competitiveness are endogenous consequences of the policy mediation chosen by the Italian governments during the 1980s. The polarization between two fractions of the dominant bloc increased within the social base of the *pentapartito*, the alliance of the five parties represented in the government. Assisted classes, public bureaucracy and *rentiers* were satisfied with the policy implemented, and kept on supporting the government. By contrast, the interests associated with production (small firms and their employees and large firms) were gradually sacrificed by this policy.

The first groups to express their discontent were the self-employed and small entrepreneurs. They did not benefit from an economic policy regime primarily functional to the domination of the large firms in industrial relations, while they paid the price of the loss in competitiveness mentioned previously, especially considering that many small Italian firms are mostly export-oriented (Golden 2004). Self-employed and small entrepreneurs form the core social base of the Northern League (*Lega Norte*), which won its first electoral success in the mid 1980s. The *Lega* is a party in opposition

to the government but sociologically close to the social base of the governing parties, Christian Democracy in particular. But in the early 1990s even *Confindustria* (the business union, which at that time represented the major industrial groups) strongly urged a policy change.

Thus, at the end of the First Republic (and before the start of the *Mani Pulite* investigation) all the groups linked to production were opposed to the policy implemented by the government: workers and clerks, whose vote was traditionally frozen on the PCI and were consequently excluded from political exchange; the self-employed and small firms (and their employees), which provided support to the Northern League; and large firms, whose newspaper (*Il sole 24 ore*) launched in the early 1990s daily attacks against the policy of the government, accused of wasting public resources.

The government responded to these attacks with a strongly restrictive policy in order to curb the rise in public debt and keep the support of firms. But in the short term this policy change increased the dissatisfaction and accelerated the breakup of the political crisis.

The policy followed by the first Berlusconi government (10 May 1994 to 17 January 1995) can be interpreted as an attempt to reconstitute the DSB of the 1980s. Indeed, Berlusconi made two different alliances: one with the *Lega* in the North, and another one with *Alleanza Nazionale* (a party that mainly represents civil servants and assisted classes) in the South and Centre of the country. However, the two parties refused an alliance with one another. The short duration of the government (the *Lega* left after 8 months, which led to the fall of the government) is a proof that the margins for mediation between the groups of the former DSB no longer existed.

#### *b. Rifts within both social blocs in France*

The political crisis in France has not been as spectacular as in Italy. One has not seen dozens of politicians on a court room bench. But the uproar caused by the presence of *Front National's* candidate Jean-Marie Le Pen in the second round of 2002 presidential election, or the gap between the choice made by a majority of politicians from the government parties on the issue of the European constitutional treaty and the outcome of the referendum in 2005 need nevertheless be remembered. Furthermore, just as in Italy, no French government has been re-elected since 1978. The right-wing victories (presidential or parliamentary elections) of 1995 and 2007 are no exceptions. Chirac's campaign of 1995 was primarily directed against the policy of the government led by his 'friend of thirty years' and fellow *RPR* member E. Balladur. Main opponent to Chirac on the right side, Sarkozy won the 2007 presidential election on a program of radical breakup with both the French model and the style of President Chirac and his Prime Minister Villepin.

The parallels between Italy and France do not stop there, for the most common explanation of the French crisis is as unconvincing as those mentioned for Italy. The most commonly-found explanation for the emergence of the *Front National* (FN) and the far right in France is a rejection by a large part of the electorate of the immigration policies deemed too tolerant, which both the left and the right would have followed for the last forty years. However, this explanation is in open contradiction with the opinion polls that show that if there is a certain hostility vis-à-vis immigrants in France, this is not a recent phenomenon and it has not risen in the recent years.<sup>13</sup> As in Italy, it seems that the crisis can be attributed to the difficulty of renewing the social compromises that had ensured the political stability in the past.

The economic crisis of the 1970s, with the slowing down of growth and a strong increase in unemployment, and the evolutions of the French model in the 1980s modified little by little the

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<sup>13</sup> See for instance the post-electoral studies between 1978 and 2007 (CDSP Sciences-Po) and the analysis in Guillaud and Palombarini (2006). Immigration is considered as the main problem for the 2007 presidential election by less than 6% of the population. Also, one may note that France experienced a serious outburst of racist violence in 1973, with no less than fifty murders (Gastaut 1993). However, J.-M. Le Pen obtained only 0.75% of the votes at the presidential election the following year.

socio-political landscape. The opposition of the right and left blocs on the issue of public intervention aggravated and took new forms in the 1980s, after the left government took the 'turn of the rigour', i.e. promoted restrictive macroeconomic policies in order to fight inflation, stay in the European Monetary System (EMS), and later qualify for the European Monetary Union (EMU). Within the left bloc, workers and clerks of the public sector would be asking for an increase in the role of the State. Within the right bloc, the self-employed (storekeepers, craftsmen, liberal professions) and the average and high income categories of the private sector employees (foremen, executives) wanted a reduced public intervention, i.e. a policy in the spirit of the 'conservative revolution' that was taking place in Great Britain with the governments led by M. Thatcher, or in the United States under the presidencies of R. Reagan.

As shown in Guillaud and Palombarini (2006), rifts appeared within each of the two social blocs, and destabilised the electoral base of the right and the left. On the right side, the demand for a Thatcherite policy expressed by the self-employed was not shared by private sector employees. In 1988, 53% of the craftsmen and shopkeepers were in favour of privatisation, i.e. more than the average of the population (43.5%), while private sector employees were slightly less favourable to privatisations than the average (40.6 %). Similarly, if the average voter held a possible removal of social security as 'very serious' with an 87.6% majority, only 78% of craftsmen and storekeepers concurred, against 90% of private sector employees. Two reference groups for the government parties' right found themselves on opposite sides on a possible Thatcherite turning point for economic policy: the craftsmen and storekeepers requested it strongly, while private sector employees showed a stronger hostility towards it than the average voter.

The divide was no less serious on the left side. The election of F. Mitterrand as president in 1981 put an end to 23 years of right-wing domination. Mitterrand was elected on a clearly left-wing platform, with the support of the communist party (PCF). The economic platform was based on two main types of intervention: (i) a series of structural reforms including a large program of nationalisations (leading to a State control of 75% of industry and almost 100% of the financial sector) and the extension of labour rights; (ii) a macroeconomic expansion program based on budget impulse, an increase in pensions, benefits and wages. This latter component, classically Keynesian in its inspiration, proved to be insufficient to overcome the economic crisis and reverse the unemployment increasing trend. It accelerated inflation, increased foreign trade deficit and compelled the government to three devaluations of the French Franc in two years.

After the failure of the expansionary policy, the alternative was the following: either (a) pursue an expansionary path, accept a high inflation rate and consequently opt out of the EMS; or (b) stay in the EMS, adopt a deflationary policy to preserve the value of the French currency vis-à-vis the other European currencies, and accept unemployment.<sup>14</sup> The latter option was chosen by F. Mitterrand after a period of hesitation. This was not simply an economic but also a political choice. Indeed, the expectations of a demand-supporting and unemployment-fighting macroeconomic policy were at the centre of the social demands of the core groups of the left bloc (Table 2). To relinquish this part of the program of the left would necessarily have consequences for the socio-political base of the government, particularly the working class. It would imply accepting the risk of having the popular classes out of the bloc and envisaging the possibility of new alliances, presumably with the fraction of the middle classes which were favourable to some aspects of the left program but reluctant to nationalisations, a strong State intervention in the economy or a political alliance with the PCF. The economic turn in the economic policy of 1983-1984 is therefore also a political turn and the beginning of a search of an alliance with social groups and political forces at the centre of the

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<sup>14</sup> The 'failure' is for the most part the high level of the external deficit.



left-right divide.<sup>15</sup> Two (related) elements could indeed have favoured a centre-PS alliance: (i) the diverging expectations within the right bloc regarding the desirability of a strong neoliberal reform program, and (ii) the rise of the FN. The first element could be instrumental in having the social groups tempted by a moderately neoliberal program drift away from the right bloc. Moreover, the fear of an alliance between the traditional right parties and the FN because of the increasing political weight of the latter could push these groups towards supporting a centre-PS political alliance.

A first step in this direction was the absence of the communist party from the government led by L. Fabius in 1984. A second important element was the change in the electoral law. For the first (and only) time under the 5<sup>th</sup> Republic, the legislative elections of 1986 would be held under a proportional representation rule. The most common interpretation of this political move is the desire of F. Mitterrand to limit the extent of a very possible victory of the right in terms of parliament representation, and to enable the representation of the FN with which the traditional right parties could not make an alliance in the political context of the times. Another and certainly more important aspect of the choice of the PR rule is that it would favour the break-up of the left-right divide and lead to the possibility of a centre-PS alliance. The victory of the RPR-UDF alliance made this recomposing of the French political life superfluous (Table 3).

Table 3. France: results of the first round of parliament elections (vote shares).

	1978	1981	1986	1988	1993	1997	2002	2007
PS+MRG+DVG	24,7	38,2	32,1	37,5	20,1	27,8	27,9	28,0
PCF	20,6	16,1	9,8	11,2	9,1	9,9	4,9	4,3
Far left	3,3	1,3	1,5	0,4	1,7	2,5	2,8	3,4
Green party	2,1	1,1	1,2	0,4	4,0	4,4	4,5	3,3
UMP / RPR-UDF	46,7	42,9	44,6	40,5	44,1	36,2	43,9	45,6
MODEM	-	-	-	-	-	-	-	7,6
FN / Far right	-	0,4	9,7	9,7	12,9	15,3	12,2	4,7

The defeat of the socialist government was largely the consequence of the change in economic policy. The main objective of macroeconomic policy was the fight against inflation in order to stabilise the currency and keep the nominal peg of the FF to the DM in order to stay in the EMS.

The consequences in terms of economic policy as well as macroeconomic performance were clear. The budget policy became far less expansionary and in fact pro-cyclical in the early 1980s, with the adoption of a restrictive stance in spite of the economic slowdown (Figures 6 and 7). The pro-cyclical character was kept until the end of the 1980s and found again under the right-wing Juppé government between 1995 and 1997. Monetary policy was in line with these options, with a restrictive stance which lasted until the beginning of the 1990s and was partly reversed with the recession of 1993.

<sup>15</sup> One may argue that this was F. Mitterrand's original plan and that the alliance of the socialists with the communist party, as well as the social base corresponding to this political alliance, was but a first necessary step in the conquest of power and not a long-lasting situation.

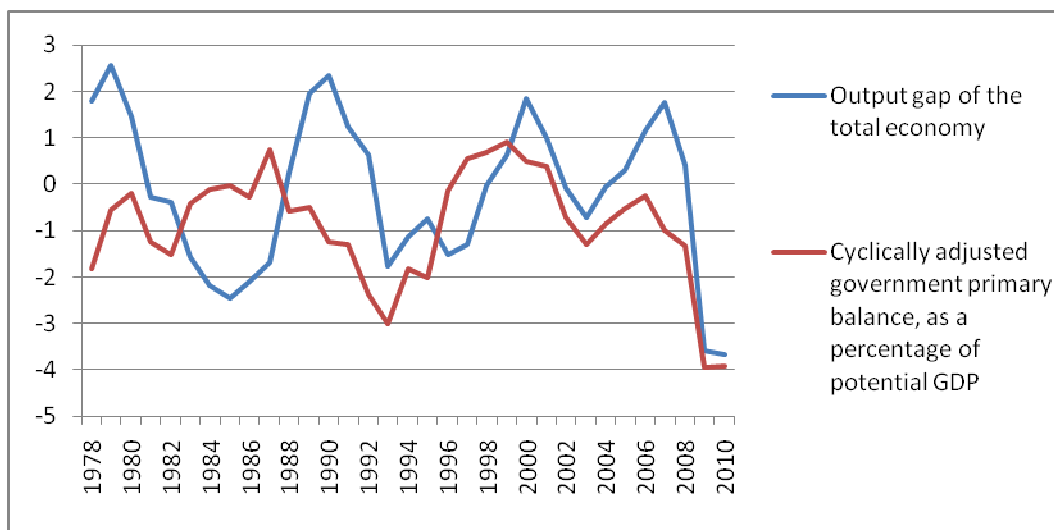


Figure 6. France: budget policy.

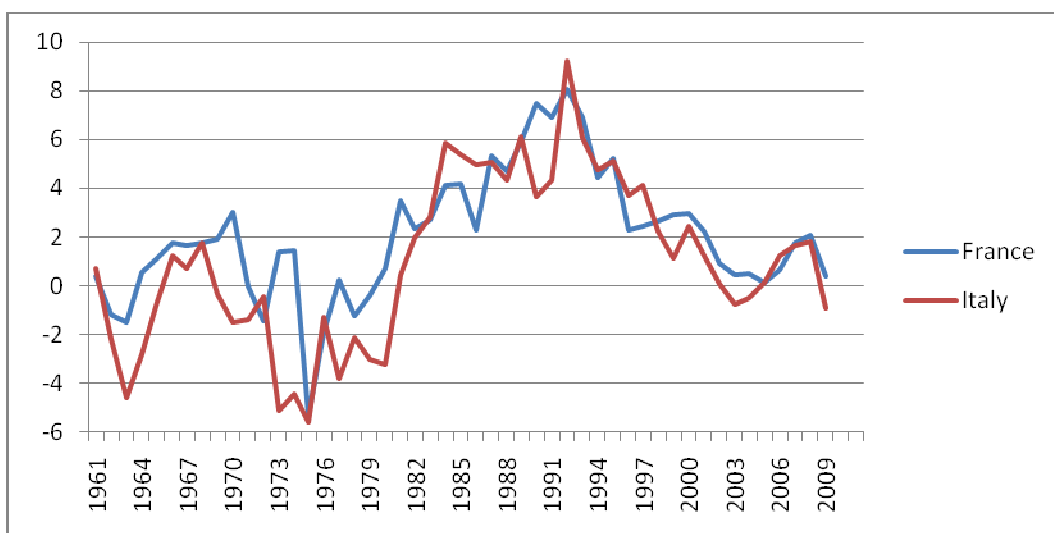


Figure 7. France/Italy: short term real interest rates.

The macroeconomic outcomes were a significant slowdown of inflation (Figure 8) and a stabilisation of the French currency (Figure 9), but mostly after the EMS crises of 1992-1993.

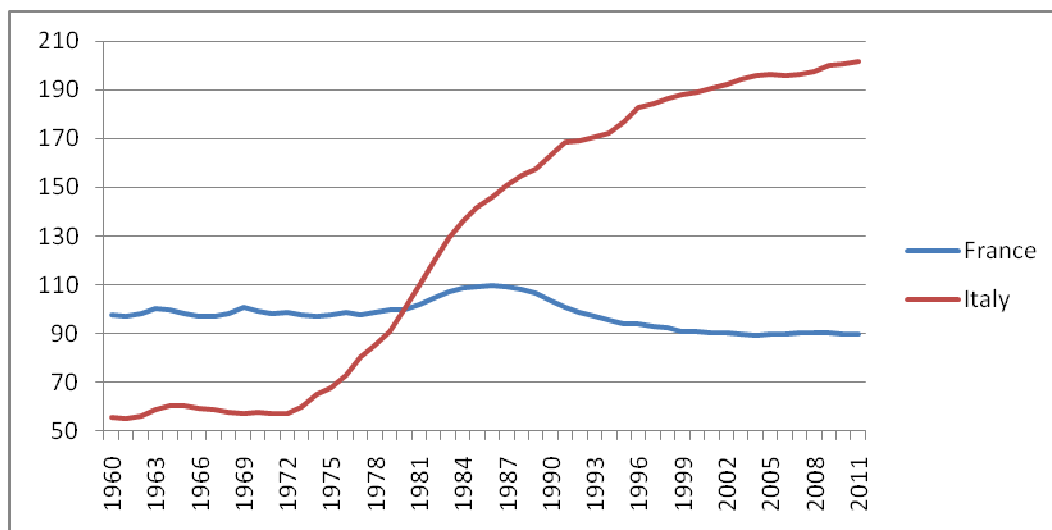


Figure 8. France/Italy: price deflator GDP at market prices. Performance relative to the rest of the former EU-15. 1980=100.

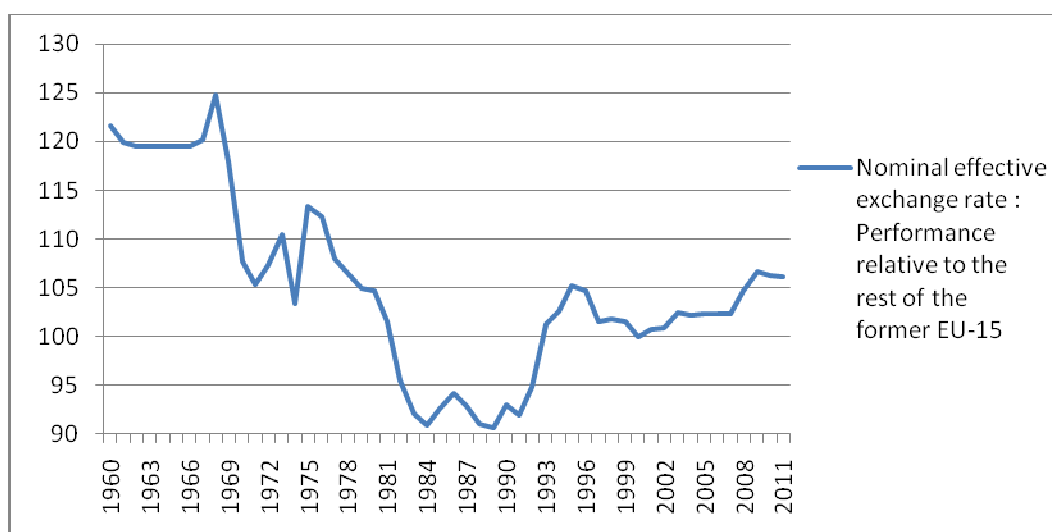


Figure 9. France: nominal exchange rate of the French currency. 1980=100.

The price of this policy was paid in terms of unemployment (Figure 10), whose rate rose rapidly in the early 1980s and never fell under 8% even during the relatively fast growth periods of the end of the 1980s and 1990s.

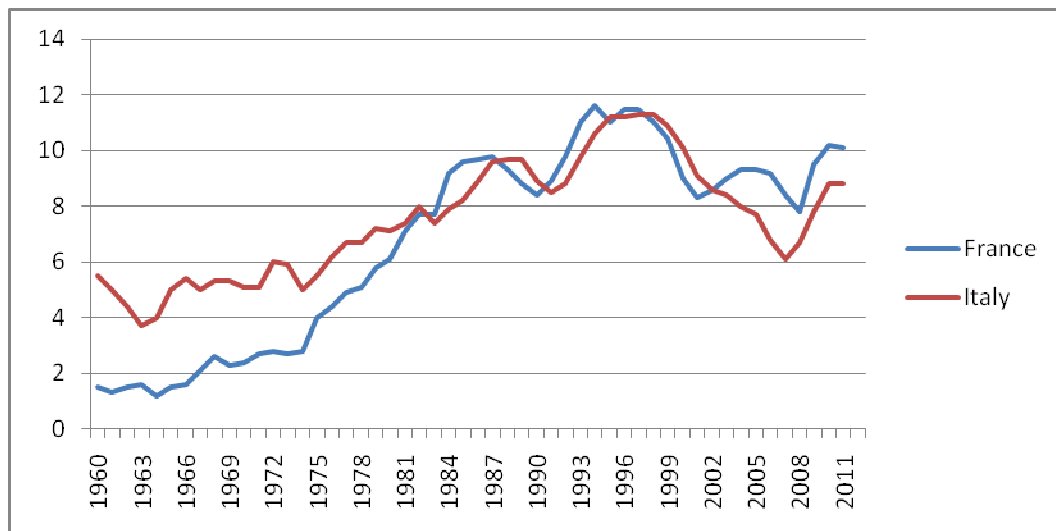


Figure 10. France/Italy: unemployment rates.

These macroeconomic evolutions had clear consequences for the socio-political base of the left. The groups that mostly suffered from the consequences of the economic crisis no longer supported the government. The consequences were most clearly felt by the communist party, whose vote share losses are clearly related to its participation to a socialist-led government in 1981-1983 and 1997-2002 (see Table 3 above). One notices that the vote share of the PCF was stabilised during the 1986-1997 period, corresponding to its absence from the government coalition or in the opposition. This questions also the popular thesis according to which the decline of the communist party would be linked to the fall of the Berlin wall and the end of Soviet Union.

The re-election of President Mitterrand in 1988 gave the socialist party a new opportunity to pursue the search for a centre-PS alliance. The new Prime Minister M. Rocard, figurehead of the 'second left', called for a 'big bang' in the French political life, i.e. a radical break-up of the political alliances.<sup>16</sup> It did not take place however. The second mandate of F. Mitterrand was less active in terms of neoliberal reforms, but macroeconomic policy was particularly influenced by the objectives of European monetary unification and the single market. The policy of nominal peg to the DM proved to be particularly costly in terms of unemployment and the left lost the 1993 legislative election.

The victory of the left at the 1997 parliament election was preceded by another setback in the quest for the centrist alliance. Former Finance minister of F. Mitterrand and former head of the European Commission, J. Delors, turned down the offer to run for the 1995 presidential election. Indeed, J. Delors could not hope to obtain the political majority necessary to the implementation of his preferred policy, acknowledging the impossibility of building a centrist alliance breaking from the opposition between a left and a right bloc.

The 1997 election was then won by L. Jospin fronting a five-party alliance backed by the support of the traditional left bloc.<sup>17</sup> In spite of having made a clear campaign on the left and showing a public opposition to the then fashionable 'third way' of T. Blair, Jospin's mandate was marked by a blatant deepening of the neo-liberalisation of the French economy, as far as the product markets and financial system are concerned (see Appendix Table A2). Jospin's governments privatised more companies than the right-wing governments and adopted laws that made significant

<sup>16</sup> The so-called 'second left' was opposed to the Marxist and even to the Jacobin heritage of the left. It was therefore against a State control of the economy and thus nationalisations, favouring market regulation and social dialogue. Politically, it looked for alliances away from the communist party and in direction of the centre.

<sup>17</sup> The five-party alliance was composed of the PS and its traditional ally RdG, the MDC of J.-P. Chevènement, the Green party, and the PCF.

steps towards the conversion of the French financial and corporate governance system to Anglo-Saxon standards (Tiberghien 2007).

The strategy was to neo-liberalise, or 'modernise' in the newspeak of the PS, those areas of the economy that were not too sensitive for the socio-political basis of the left, i.e. not too high up in the institutional hierarchy of the left bloc (social protection and labour rights). Deep transformations affecting the financial and corporate governance system were thus traded against some extensions of employment protection, an increase in public employment and the 35-hours week, itself an ambiguous reform which decreased the duration of the legal working week while at the same time extending the flexibility of work organisation. The logic behind those reforms was the achievement of a transformation of the French model into a neoliberal/social hybrid model, whose stability is highly questionable if one considers the complementarity between institutions (Amable 2003; 2009; Deeg and Jackson 2007). Again, this was at odds with the expectations of the social base of the left. The end-result was another electoral defeat: the absence of the left candidate, L. Jospin, from the second round of the 2002 presidential election for the first time since 1969, because a large part of the left votes went to candidates that opposed the neoliberal course of the Jospin government.<sup>18</sup>

To sum up, the three experiences of PS-led governments were dominated by the same logic: the pursuit of a 'modernisation' (i.e. neoliberalisation) of the French economy, which had for consequence to alienate the popular classes and push the emergence of a vote for non traditional parties, both on the right and on the left. Following the median voter model logic, the socialist leaders thought that the middle classes were the key target of their political action, which led them to neglect the working class. Ironically, this has been more detrimental to the communist party's electoral base than to that of the PS. The disaffection of the popular classes with the left has in fact made the centre-PS alliance more realistic.

Neoliberal policies are also at the core of the problems affecting the right bloc. The right alliance around the RPR-UDF/UMP coalition has been in office three times for two years in 1986-1988, 1993-1995 and 1995-1997, and again since 2002. The Chirac government of 1986 took a large inspiration from the 'conservative revolution' taking place in the UK and the US, and came to power with an ambition to drastically change the course of the French economy. The reform program was centred on privatisations, i.e. a reversal of the policy followed by the left alliance in 1981, and, less centrally, on labour market flexibilisation. A large program of privatisations was launched and the necessity for a firm to obtain the authorisation of the public administration to lay off employees was suppressed. This had important consequences for the possibility that firms would have to implement restructuring policies involving substantial labour force layoffs. This neo-liberal orientation caused some problems even within the social base of the right. A rift within the right bloc emerged in the 1980s, opposing groups expressing demands for a strong labour market flexibility (artisans, storekeepers, independents) to those that felt threatened by it (private sector employees). Firms did use the possibility offered by the liberalisation of layoffs to restructure their activities and this affected deeply the private sector labour force. A neo-liberal labour market flexibility, and to a lesser extent some privatisations, clashed against the demands for economic security, public services and redistribution of some groups within the right bloc, mostly the private sector employees. Chirac's 1986 attempt corresponded more to an alignment to the expectations of one part of its social base than to a mediation between the various demands of the right bloc.

The failure of the 1986-1988 experience had a lasting impact on the political strategies followed by the right. The leading politicians on the right acknowledged that the strong demand for a liberalisation and flexibilisation of the labour market of one part of the right electorate was difficult to reconcile with the demands for security expressed by private sector employees. This fundamental contradiction explains the cautiousness with which labour market reforms were undertaken until

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<sup>18</sup> Indeed, Trotskyite candidates gathered 11% of the votes while Jospin's score was a little over 16%.

Sarkozy's presidency. The only significant attempts to flexibilise the labour market were always made at the margins, i.e. on targeted labour force groups.<sup>19</sup>

The Balladur government of 1993-1995 refrained from significantly changing labour market institutions and concentrated instead on pursuing a program of privatisations, with an aim to constitute stable shareholder cores (*noyaux durs*), chosen by the Ministry of Finance. A first significant welfare retrenchment reform concerned private sector pensions, a risky move considering the social base of the right. Although it went without causing any significant reactions from the labour unions, it was not without consequences on the difficulties met by E. Balladur in its competition for leadership on the right with J. Chirac: indeed, the latter saw an opportunity in moving to the centre and proposed a mediation between the right bloc's divergent demands different from Balladur's neo-liberal orientation. At the 1995 presidential election, Chirac beat Balladur in the first round and ultimately won the election against Jospin in the second round, adopting an almost centre-left position, criticising the lack of reaction of the Balladur government against growing inequalities (the *fracture sociale*), and promising a reflationary policy aiming at improving purchasing power. The propositions of Chirac proved effective in reuniting the right bloc. However, once elected Chirac and his Prime Minister A. Juppé embarked on a more classically neo-liberal course than what the calls against the *fracture sociale* had led voters to believe.

A significant turning point was the failure of the pension reform in 1995. A. Juppé was cautious enough to target a group that was a major part of the left bloc, the civil servants and public company employees, with their special regimes for pensions. The aim of the reform was to align the special regimes on the general regime of the private sector, which implied a drop in pension levels. The reform even obtained the support of a certain number of academics and intellectuals traditionally considered as supporting the left. Yet, the opposition to the pension reform was massive and turned into a movement against neo-liberal policies in general, which not only reunited the popular classes with the left bloc, but also gathered support in the ranks of the private sector employees, who supported a movement they were not able to carry on two years earlier, when their own pensions were at stake.

To sum up, both the left and the right blocs were therefore characterised by the existence of contradictions between the expectations of the various social groups composing them. This double fracture has caused the rise of the extremes and especially the far-right party *Front National*, which proposed a particular mix of radical neo-liberalism domestically and protectionism in trade policy.<sup>20</sup> The FN captured those disappointed by the right for being too cautious on labour market and social protection reforms, and voters disillusioned by a left that they consider slave to the demands of a neo-liberal Europe. In parallel, the poorest categories of the left bloc drifted away from the socialist party, which had been governing for the most part of the 1980s. On the government parties' side, the common tendency was thus to shrink the hard core of their electoral base to the high and average income categories – of the public sector for the left, of the private sector for the right.

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<sup>19</sup> Such tempted adjustments at the margins are for instance Villepin's CPE (contrat première embauche) for under-25 year's workers and CNE (contrat nouvelle embauche) for very small firms: both contracts were intended to allow firms to lay off workers during the first 2 years, after what the contract would have become a permanent contract. However, the CPE was never implemented given major street demonstrations, whereas the CNE was suppressed only a few months after being implemented.

<sup>20</sup> Among the propositions of the *Front National*, one could find the abolition of the income and inheritance taxes, the lowering of the tax on firms' benefits, and the limitation of the share of public expenditure relative to GDP to 25%.

#### 4. The problems met by left strategies

##### a. Italy

Prodi's first government (1996-1998) was a new experiment for Italy since it was the first direct participation of the Left to a government. It was also the first attempt to end the political crisis by proposing a new social alliance, the so-called 'Producers' Pact'. This experiment was extended until 2001 by the D'Alema government (the first and only time an ex-PCI member has led a government in Italy) and the second Amato government. The achievements of these governments are commonly considered as 'outstanding': Italy was in the first group of countries to join the euro, public debt was first stabilised and then reduced, interest rates and inflation levels dropped. The ruling class convinced itself it had done marvellous job and expressed a large amount of self-satisfaction.<sup>21</sup> However, the electorate held an altogether different view and the very negative opinion it had of the government (ITANES survey 2001) led to the defeat of the centre-left coalition in the 2001 elections.

In the 2001 elections, the centre-left won most of its votes among voters who considered the following themes as priorities: European integration, the fight against tax evasion and public corruption, protecting the environment, schools and health; i.e. Europe, welfare state and moral issues. On the other hand, the centre-right won the most votes among voters who considered those issues as priorities: the fight against unemployment, lower inflation, lower taxes, the economic backwardness of the south, and the fight against crime and illegal immigration; therefore centre-right voters were concerned with not only security issues, but *all* the economic issues.

If one looks at the voting behaviour according to socio-professional categories, the following can be observed. The centre-left obtained only a narrow majority among executives and employees of the public sector and among private sector executives. The centre-right obtained a majority mostly among the self-employed (businessmen, professionals, merchants, craftsmen), but also among the unemployed and workers in both the private and public sector

To sum up, the opinions of voters, especially the lower classes, on the economic performance of the government was clearly negative (Caciagli and Corbetta, 2002). After five years of centre-left government, there was a huge gap between the self-evaluation of the political leadership and the reaction of a significant part of their electoral base. How can one explain it?

The contents of the Producers' Pact must be specified. The stated objectives of the centre-left were (i) to provide an answer to the dissatisfaction of the producers which led to the end of the *pentapartito*, (ii) to improve the state of public finance and stabilize the public debt, and (iii) to make it possible for Italy to join the first group of countries which should participate to the creation of the Euro. In the perspective of our theoretical framework, the action of the centre-left must be interpreted from a different objective: (iv) to create a new dominant social bloc, a necessary condition to put an end to the political crisis which broke out in 1992.

The action of the first Prodi government can therefore be reinterpreted. Following the political rhetoric: (1) the main objective is the entry into the euro; (2) to achieve it requires restrictive

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<sup>21</sup> For most leaders of the centre-left, the defeat in 2001 is related to problems of communication or political organization. Thus V. Visco, Finance minister between 1996 and 2000, wrote the following after the electoral defeat: "the electorate has recognized and appreciated the government's results, which were positive or excellent. We must understand why - despite this fact - voters did not identify with our political supply". In his analysis, the problem is that "the identity and the culture of the past have not been overcome". Undue attention was given "to not losing the qualities, values, symbols of a past that - like it or not - is definitely behind us" (V. Visco, *La Repubblica*, 1 August 2001). This type of critical thinking led the '*Democratici di sinistra*' (heirs of the communist party) and the '*Margherita*' party (born of a split within the Christian democrats) to merge into the 'Democratic Party'.

macroeconomic policies; (3) the *concertazione* is necessary to carry out these policies in a context of social peace.<sup>22</sup>

An alternative analysis is the following: (1) the formation of a new social alliance is necessary to overcome the political crisis; the protagonists of this new alliance are large firms and their employees as well as civil servants; (2) the *concertazione* is necessary for the building of the new alliance; (3) the *concertazione* is viable only in a context of restrictive policies; (4) the objective of joining the euro legitimates restrictive policies.

It is worth noting that the Italian *concertazione* does not correspond to a classic social democratic exchange between public resources and political support. There was no tradition of cooperative working relationships; business and trade unions were too weak to mobilize support significantly; and the employers demanded the drop in inflation and interest rates, both objectives being deemed incompatible with an expansionary policy. The government has not shared public resources to gain political support. Indeed, business and trade unions were weakened by the European Monetary System; their representativeness was challenged directly in the political realm by Berlusconi and his allies. The government gave them legitimacy and protection of vested rights. It received in exchange the opportunity to conduct restrictive policies in a context of social peace (Figure 11).

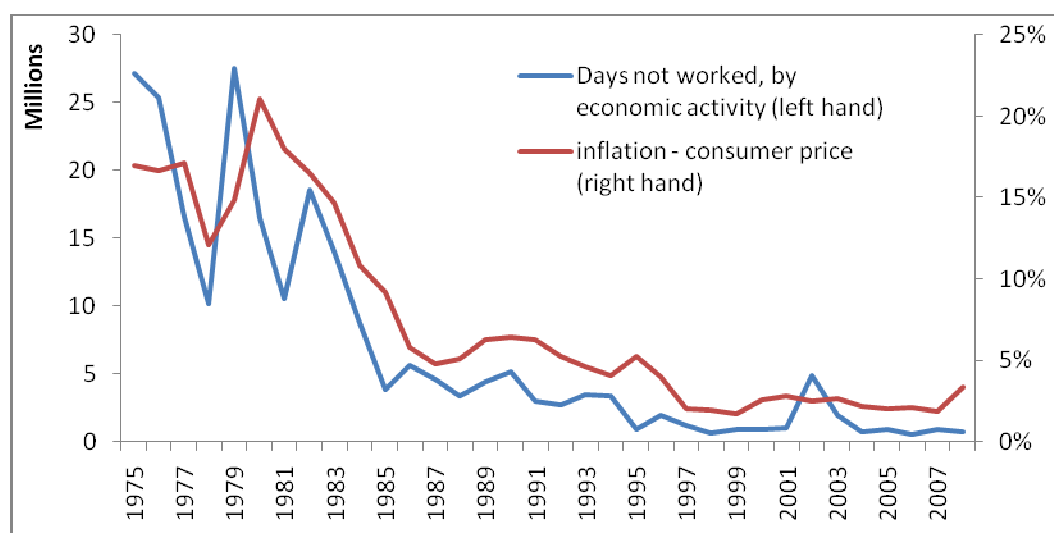


Figure 11. Italy: social unrest and inflation.

This strategy represented a new economic policy regime (Table 4).

<sup>22</sup> The '*concertazione*' is the tripartite bargaining (government-employers-unions) on all public policies.



Table 4. Italy: three economic policy regimes.

	1975-1983	1985-1991	1996-2001
Social alliance	big industry  SMEs  assisted classes	rentiers  assisted classes  big industry  SMEs	big industry  private sector unionized employees   public sector employees
Economic policy...			
Budget policy	strongly expansionary	quite expansionary	restrictive
Exchange rate	quasi-flexible	rigid	fixed
...and its consequences			
Industrial relations	conflict	dominated by firms	cooperation
Inflation rate	> 10%	5% - 7%	1% - 2%
Public debt	rising	rising	stabilized
Interest rate	low but increasing	high	decreasing

The concerted income policy in Italy was made possible by the presence of two factors: (1) in the regime of fixed exchange rates, inflation was a cost to the social partners; (2) the fiscal policy had reduced the stakes in the conflict between trade unions and business associations.

In such a situation, the reasons for a distributive conflict had diminished, at least for the parts of the wage-earning class and big business that could arrange an exchange between the protection of vested rights on one hand, and wage moderation and social stability on the other hand. One can think of the Producers' Pact as a series of concentric circles. At the heart of political exchange was the *concertazione* between big business and unions; further out, the classes related to the public sector, then the small and medium-sized firms and their employees, and finally the group of *rentiers*. In the second half of the nineties, the latter group was found to be substantially excluded from the mechanisms of formation of economic policy.

To be successful, the strategy of the centre-left had to develop a centripetal force, able to have groups linked to the production sector, which identified neither with the interests of large firms nor with those of unionized workers, joining the new social bloc. The Italian producers' pact was based on the acceptance by large industrial firms and trade unions of several 'economic constraints' (the financial stability, the stability of the exchange rate...) with respect to which the participation to the process of European monetary unification played a decisive role of legitimacy.

*Concertazione* and abiding by the Maastricht criteria represented the elements of a new policy regime. However, the conditions that enabled the existence of the producers' pact were the same as those that prevented a growth-oriented economic policy. To be viable, the pact between big businesses and the unions – which replaced the one between the manufacturing business and finance characteristic of the 1980s – was in need of much more abundant resources than what the economic policy could provide.

The pact absorbed resources from the groups which had remained outside of the new social bloc. It produced a centrifugal force that moved not only the classes related to financial rent, but also the assisted and precarious classes, those related to the world of small and medium-size firms and to the public sector, away from the heart of political exchange. If one looks at the location of the various groups on the Italian territory, the consideration of this movement contributes to explaining the social opposition encountered by the centre-left in the South and in the North-East of the country.

The centre-left governments were unable to resolve the contradiction between on the one hand the foundation of an alliance of producers based on a respect of 'economic constraints' that was incompatible with a development-oriented macroeconomic policy, and on the other hand the need for a strong economic growth to ensure the stability of such an alliance.

The analytical framework developed previously explains why the election program of the first Prodi government was not respected. In this program, the objective of the 'first phase' of the government was the entry into the Euro and the consolidation of public finances; the 'second phase' would have had for an objective the promotion of economic development (particularly of the South of the country) and the decrease in unemployment. Thus, the transition to the second phase was to mark the end of restrictive policies. But the 'second phase' was never initiated, which led to the paradoxical result of the fall of Prodi's first government just after the 'historical' achievement of joining the Euro.<sup>23</sup>

The refusal to adopt a law on the reduction of working hours was the episode that caused the fall of the Prodi government. The reduction of working time was at the centre of European political debates in the second half of the 1990s, especially in France and Italy. The Italian debate on the reduction of working time took on political importance at the initiative of one party of the centre-left alliance, the Communist Refoundation Party (PRC).

In France, the 35-hour law was one of the features of the economic policy of the left coalition government led by Lionel Jospin. In Italy the situation was very different. The reduction of working time was proposed with great energy by the PRC. However, it was met strong resistance in the centre-left. A few days before the fall of his government, Romano Prodi dismissed in these terms the charges against him of not keeping commitments on the 35 hour-week: "The text is already in Parliament, we have respected the month, the day and the hour. In recent weeks, however, we never talked about this theme, Bertinotti [*Secretary of the PRC*] never referred to the Law of the 35-hour week. He knows that from the beginning I did not agree with this law, but then we saw that it

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<sup>23</sup> Faced with the refusal of a shift in economic policy, *Rifondazione Comunista* left the governing coalition and caused the fall of Prodi's government. The centre-left then regained a parliamentary majority thanks to an alliance with a group of centrist, an alliance that supported the D'Alema and Amato's second governments.

did not lead to a deterioration of the situation and we found a way to implement it without any damage to the country".<sup>24</sup>

The Italian centre-left (with the exception of the PRC) was opposed to a law regarded as vital by the left coalition in France. The explanation is that a law on working time reduction would have resulted in a contradiction with the political strategy of the Italian centre-left: the measure would have inevitably caused difficulties in the dialogue between the unions and the representatives of big business. After the fall of the Prodi government (1998), the PRC left the alliance and was replaced by a group of centrist elected in the ranks of the centre-right.

In fact, the transition to the 'second phase' could not have taken place. Less restrictive policies were inconsistent with the specific mechanisms that the centre-left had begun to build with the Producers' Pact. Such policies would have destabilized the social bloc that the centre-left was trying to build. This explains the electoral defeat in 2001.

- After reaching the goal of joining the euro in 1998, it became more difficult to justify restrictive policies;

- The centre-left failed the expectations concerning social protection and economic development that came especially from southern regions;

- the restrictive policies - central to the strategy - led not only to the strong hostility of groups excluded from the alliance, which paid the highest price for fiscal restraint (especially SMEs in the North and assisted classes in the South), but also to the dissatisfaction of a fraction of the employees (increasing difficulties in the alliance government with the discontent of the 'radical' left);

- following the decision not to pursue a Keynesian expansionary policy, the only strategy for growth remained a neo-liberal supply-side oriented policy (privatisations, flexibilisation of the labour market). Being associated with such a policy resulted in a weakening of the unions' influence;

- the new social bloc was based on an alliance between big business and unions, which represent mainly public employees, employees of large firms and retired workers. Were excluded from the bloc not only assisted social classes and independents, but also the small and medium enterprises as well as the precarious and irregular workers. But since the 1980s large firms' weight was declining in Italy, while SMEs' weight was increasing. Among workers, employees under permanent full time contract represented only one half of the workforce (51% in the first quarter of 2010, source ISTAT).

The fundamental problem of the Italian left is therefore to find new social partners. An 'alliance between producers' which excludes small enterprises (and their employees), atypical workers and the unemployed, is necessarily a minority alliance in Italy.

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<sup>24</sup> "Né compromessi né trasformismi" ("Neither compromises nor transformed"), interview by Romano Prodi in *La Repubblica*, October 3, 1998.

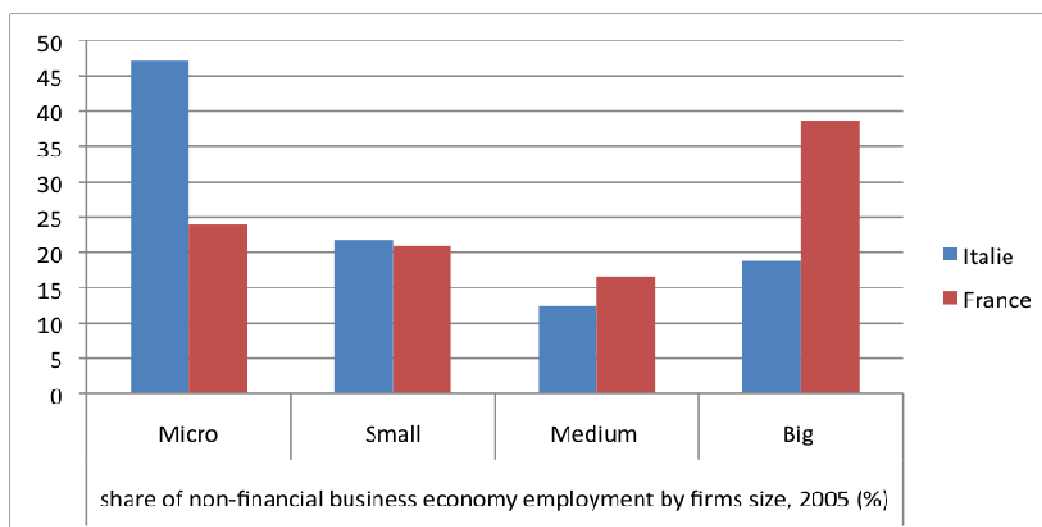


Figure 12. France/Italy: firm size distribution. Micro firms: 1 to 9 employees. Small firms: 10 to 49 employees. Medium firms: 50 to 249 employees. Large firms: over 250 employees.

#### b. France

The implementation of a leftist policy is made difficult by two types of constraints: (i) the impossibility to carry on an expansionary macroeconomic policy largely because of the constraints imposed by the Maastricht criteria and the loss of control of the monetary policy; (ii) the difficulties to maintain the stability of the social-democratic institutions in large part inherited from the post-war compromises in the context of system competition that characterises the European Union. The question of European integration has been at the centre of the most important policy choices that the governing left had to make since the 'turn of the rigour' in 1983. European integration has increasingly appeared as a factor of division within the left bloc. Whereas the working classes have become sceptical about the European project, the middle classes and the bureaucracy of the PS, which strives to appear as 'responsible' leaders in the eyes of the European counterparts, tend to see European integration as a major if not the main political project, in a period which saw the neoliberal dimension of the European project become even more predominant, with the single market, or the European monetary unification, which was perceived as an increase in the exposure to the competitive risk or a loss of the national capacities for protection such.

For instance, the implementation of the European directive on capital mobility (1988) was in part a concession to Germany:

"In the summer of 1988, we have let it clearly known to the Commission and other European countries that Germany would never accept a monetary union without complete internal and external capital mobility" (Hans Titmeyer, cited in Abdelal 2007).

The categories the most threatened by the crisis perceived the European integration as an additional threat, the other categories as an opportunity.

"French top managers are pro-Europe because they have, quite rightly, understood that the return to order and the 'marketisation' of the French economy, if I may say so, have been achieved through Europe, thanks to Europe and because of Europe". Pascal Lamy 2005, *Le Débat*, p.35 (our translation and emphasis).

Besides, the reform of the social protection system in 1995 was presented by Prime Minister A. Juppé himself as an obligation to reduce public deficits because of the requirements imposed by the European monetary unification. On 15 November 1995, on the declaration on the reform plan for social security, A. Juppé stated:

“One must break with the policies that have for 15 years let deficits increase and led to an unprecedented rise in real interest rates. Our policy precisely consists in reversing this evolution, which has gone on for too long. It breaks with fiscal complacency and drastically and lastingly reduces deficits. It creates the conditions of a new monetary policy which, *in the perspective of the unique European currency*, enables the French economy to breathe and develop. Let me remind you that a 1-point drop in interest rates injects 50 billion Francs in economic circuits. This is also why one must achieve social budget balance. This is a prerequisite toward the development of employment.” (*our emphasis*)

The following year, on 2 October 1996, in his declaration of general policy on employment and modernization of democracy, the Prime Minister declared:

“The third instrument in this policy of recovery of our public finance [is]: the stability of currency that leads to the decrease in interest rates. (...) *This way is made credible the progression toward the unique currency* which has recently made some progress in Dublin, notably with the setting up of a European monetary system for the countries which will not adopt the unique currency right away. There is there (...) not only a technical and, if I may say so, economic ambition, but much more *a real political project which is the only one able to reinforce the European Union at a time when it will be enlarged* and in a world that is organizing itself. And I say it to all those who are overcome by a bit of euroscepticism when North America is making the ALENA, South America the MERCOSUR, and Asia the ASEAN, are we, the European Union, going to split or be more fragile. The economic and monetary union, the unique European currency, will be, I am convinced of it, the locomotive of this Europe that we need in the emerging 21<sup>st</sup> century world.” (*our emphasis*)

This European dimension led to a difference of appreciation across the two blocs (Grunberg and Schweisguth 1997; Guillaud and Palombarini 2006). Voters on the right the most opposed to European integration were those who expressed most strongly expectations in terms of ‘internal’ liberalization (and protection vis-à-vis the rest of the world): no creation of public jobs or increase in the minimum wage, more privatisations. To the left on the other hand, the voters demanding the most a corrective intervention from the State were also those who expressed the most negative judgments on European integration. In 1995, 46.2% of the persons surveyed in the *panel électoral* considered that France has ‘many’ or ‘sufficiently many’ common interests with other countries in Europe. This percentage was 52% among managers and employees of public sector, but only 38% among workers. Similarly, 29% of the respondents felt ‘just French’ and not European, a feeling shared by 19.3% of the executives and public sector employees only, but by 35.7% of the workers.

The *panel électoral* of 1997 reveals a strong difference of opinion regarding the European Union across core groups of the left bloc. Asked what they would feel if the European Union were abandoned, only one third of the workers would be sorry whereas this feeling would be shared by three quarters of the medium- and high-skilled civil servants (Table 5).

Table 5. France: answers to the question: "If you were told tomorrow that the European Union is abandoned, would you be...".

	<b>Workers</b>		<b>High-level employees of the public sector and intellectual professions</b>	
	percentage	Cum. Percent.	percentage	Cum. Percent.
Very sorry	33.0	33.0	76.3	76.3
Indifferent	40.4	73.5	18.7	95.00
Very relieved	26.5	100.0	5.0	100.0

Source of data: *panel électoral français* 1997.

This evolution was confirmed during the 2000s and peaked during the referendum of 2005 on the European constitutional treaty. The negative votes outnumbered the positive ones in the fraction of the left bloc which had a negative vision of globalization and the single currency, and in that of the right bloc which expected a more liberal policy on the internal side (privatization, reduced taxes, decrease in the number of civil servants) while wishing a certain protection against the outside (distrust towards the single currency). It may be recalled that the Socialist Party officially decided in favour of the European constitution at the 2005 referendum following a relatively narrow victory of that option in an internal vote. However, a majority of left voters chose the opposite option and workers, according to an IPSOS poll, voted 'No' with a large majority of 79%.

The positive judgments on the European integration can thus be found with voters of the traditional parties, which gather the high- and middle-income categories of the private sector (foremen, employees, junior and senior executives) liberal professions and agricultural world for the right, the high- and middle-income categories of the public sector for the left. On the other hand, all the categories with low-income and/or which feel threatened in their status drifted away from traditional parties: storekeepers and craftsmen in the right bloc, workers in the left bloc.

The recomposing of the left bloc supposes to reduce the social rift about European integration, which has led to the drift of a large part of the popular classes away from government parties towards abstention or extremes on the left or on the right. This implies that European integration should no longer be perceived as a Trojan horse for neo-liberalism by this fraction of the electorate. It is to a small extent an ideological problem which is partly the consequence of French political leaders' use of European integration in their discourse when they want to implement an unpopular reform. But this reject of European integration is far more significantly a reject of actual European policies and the reality of European integration, particularly that at the initiative of the European Commission. The recomposing of the left bloc implies therefore a radical change in the European public policies. One imagines with difficulty that such a change could be made without a substantial altering of the rules of European integration: the objectives and statutes of the ECB, the unanimity rule, in fiscal matters particularly, etc.

If the heart of the fracture of the left bloc is indeed the too liberal orientation of the European unification, only a sensitive reorientation of the European policies may bring a solution. Jospin, who was Prime Minister between 1997 and 2002 and whose political career suffered from the break-up of the left bloc at the 2002 presidential election, was conscious of the difficulties that the European Union implied for the definition of a left-wing policy:

"The reluctance of the public opinion was measured in the extremely tight vote approving the Maastricht treaty and in the rejection of the constitutional treaty in 2005. But this reluctance and this scepticism concern less the merits or the defects of the texts which were subject to

the European peoples' vote than a deeper conclusion: Europe has been for twenty years a zone of low growth, it was not able to prevent the rise of unemployment, it encouraged little social progress, it was passive in front of disorders of globalization. [...] Questioning the European project – which would be madness – is out of the question, but there is a very serious need to revise its contents.” (Jospin 2010: 255, our translation).

In the current configuration of the Union with 27 countries, this seems impracticable.

“As Prime Minister, I did not question the principle of the independence of the European Central Bank. *I could not do it.* This principle resulted from the treaty of Maastricht approved in France by the referendum of 1992 and ratified by all the European States. On the other hand, I have never believed that the independence of the central Bank could be a guarantee of good management. [...] The problem is not to question the independence of the central Bank – it would be necessary for it to obtain the unanimity in Europe – it is necessary to see to it that the governments [...] and the European Central Bank [...] have a real dialogue to lead coherently the economic and monetary policy of the Union.” (Jospin 2010: 254-255, *our emphasis*).

What is left to the traditional left parties is merely to bemoan the state of the world:

“The assertiveness of Europe as an economic and political community is for me one of the most innovative and the most fertile facts of the 20<sup>th</sup> century. Naturally, I regretted the too liberal course of the European construction, but I did not use it as a pretext to turn my back to the project itself.” (Jospin 2010: 253).

But the partly neo-liberal choice made by a fraction of the PS may be at the heart of the divisions of the left bloc rather than the European Union issue itself. As mentioned before, the ‘turn of the rigour’ made in 1983-1984 was a political and economic choice to keep on with European economic unification and renew the social base of the left. The quest of a centre-PS alliance and the incompatibility of this project with the maintaining of the traditional alliance has been a permanent source of difficulties for the PS since 1984. The contradictions between the nature of the structural reforms made under the PS-led governments and the expectations of the less affluent part of the social base of the left have each time provoked the electoral defeat of the PS because of the non-existence of a replacement social base, which would for instance be composed with pro-Europe and mildly neo-liberal middle classes.

The strategy followed by PS leaders since the mid-1980s is therefore to renew their social base by neo-liberalisation of the French economic model which would not concern primarily the institutions the most important for the traditional social base of the left and probably also for a significant fraction of the middle classes: labour market institutions and social protection. This concern about the middle class is expressed for instance by the former finance minister of L. Jospin, D. Strauss-Kahn. According to him, the middle class forms the base of democracy, contrasting with the temptation of violence that would inhabit the poor (Strauss-Kahn 2002).

But the neglect of the demands of the working class can only be a viable political option if the popular classes, disappointed by the left, choose not to vote, which is what Strauss-Kahn assumes, or vote nevertheless for the left parties in a logic similar to that of the median-voter model. This latter possibility is what Jospin thought more realistic when he declared that the social base of the left had been extended (towards the centre).<sup>25</sup> The possibility that the working class could vote for other parties than the PS or the left was not considered as a possibility. Yet, as shown in the analysis of the

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<sup>25</sup> “Our sociological base is neither homogeneous nor narrow; it has been renewed and extended. This is why we must find the best trade-off between social classes. Those who are rather satisfied with the current state of society and do not want to incur the ‘cost’ of increasing equality [and] [t]hose for which the notion of equality and its concrete deepening are fundamental.” Jospin 1999: 50 (our translation).

2007 electoral survey, the core groups of the left are now mostly skilled middle classes (groups 4, 6, 8 and 10 in the latent class analysis presented in the Appendix). Workers are on the other hand scattered in different groups, expressing demands for income redistribution and protection that the left has somewhat neglected, leading to an increased volatility of the working class vote, a phenomenon observed also in other European countries (Thomassen 2005).

## 5. Neo-liberal reforms as a strategy towards a new dominant social bloc

### *a. Berlusconi: a new compromise between rent and profit*

Berlusconi won the legislative election of 2008. According to ITANES (2008), as in previous elections, the electoral core of the right comprised the entrepreneurs and the self-employed. The electoral core of the left included the intellectual professions and civil servants. Again, as in previous elections, voters belonging to the popular classes were the most mobile and determined the outcome of the election:

“The behaviour the most difficult to interpret is that of the least skilled workers. Their participation in voting is almost identical to that of the general population. [...] It is a composite class – the ‘traditional’ workers, the unskilled service sector employees, workers without open-end contracts – which represents half of the electorate [...]. Voters impoverished and troubled, uncertain and suspicious, waiting for answers to their problems. This class in the 2006-2008 transition has considerably shifted its votes from the centre-left and radical left (which lost 12%) to the centre-right Northern League and the PDL (which gained 11%). This class represents in 2008 half of the electorate of the PD, of the PDL and of the Northern League.” (ITANES 2008: 95-96).

The results of a latent class analysis performed on the 2008 electoral survey lead to conclusions very close to the interpretation found in ITANES (2008). Table 6 presents a summary of the results, with 7 classes of voters.

Table 6. Italy: results of the latent class analysis on the 2008 electoral survey.

Class	Weight	Social demands	Vote
Fragile popular classes (precarious employment), not covered by labour law	24%	Pessimistic about economic developments; primary concern: work, job insecurity	Weak link to the right (self-positioning), vote for a protecting right; southern regions
Inactive (housewives, unemployed, leave work), poor self-employed	22%	Very pessimistic about economic developments; primary concern: work, employment, job insecurity, economic insecurity	Rather weak link to the right (self-positioning), vote for the liberal right
Teachers, employees, medium-rank executives, students and intellectual professions	17%	Main concern: economic growth, labour, employment, job insecurity	Strong link with the left
Self-employed, Entrepreneurs, professionals	14%	72% agree with the freedom to dismiss; primary concern: growth, crime	Strong link with the right, massive vote for the liberal right, small business areas
Teachers, executives	9%	Main concern: work, economic insecurity +	Very strong link with the left ; red regions



		different themes (research, justice, institutions, values ...)	(+ Rome)
Employees of cooperatives, seeking a first job, clerks	7%	Main concern: work, economic insecurity	Link with the left
Inactive, retired	7%	Main concern: work, crime	

One must first note that workers do not appear in any class in particular. Again, ITANES (2008) confirms this finding: workers' share in the whole electorate is 23%; its share in the electorate of the PD is 25.3%, 23% in the PDL electorate and 25.4% in the Northern League's electorate. Thus workers are more or less randomly distributed across all parties' electorates. Several explanatory factors may be mentioned.

- PD's refusal of an alliance with the radical left; break-up and collapse of *Rifondazione Comunista*, the only party with which the workers kept a privileged relationship.
- The working class was highly penalised by the economic policy implemented since 1990 (both under the centre-left and centre-right governments) (see Figures 12 and 13).
- The working class is divided among at least three segments: (1) workers in large firms (northwest), unionized and protected by the status of workers; (2) workers in small enterprises (north-east and centre), which from the point of view of political behaviour are in line with their employers, and (3) precarious or irregular workers (centre, south).

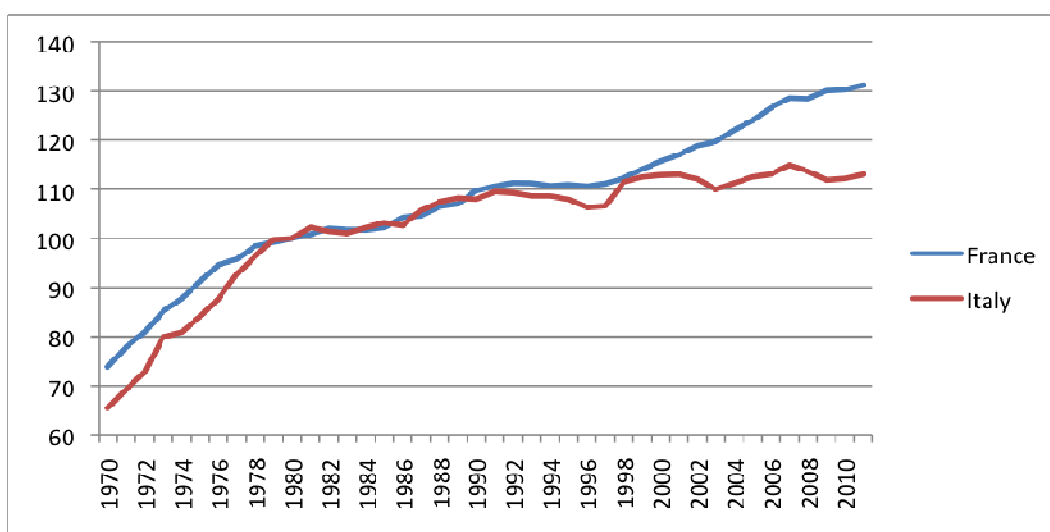


Figure 13. Private sector real wage. 1980=100.

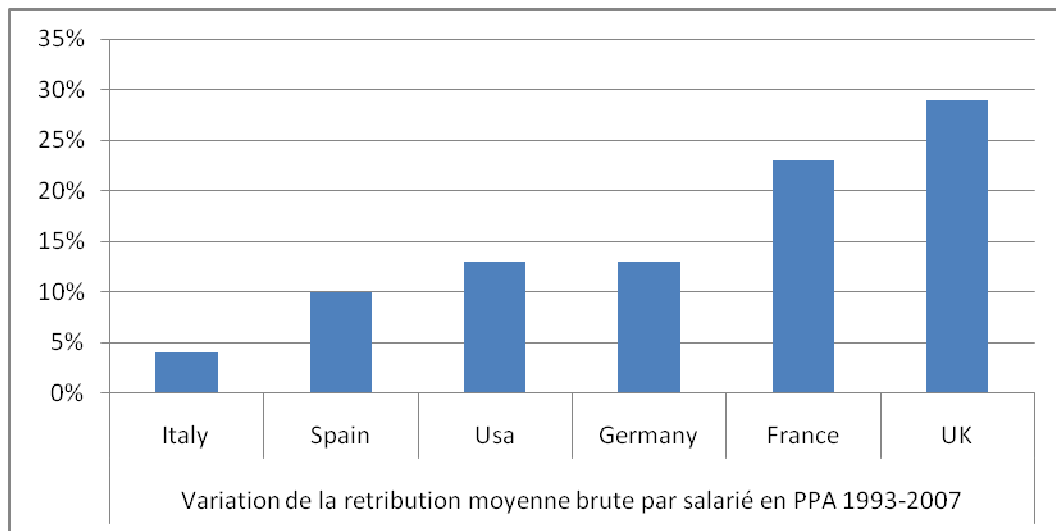


Figure 14. Change in gross wages 1993-2007. Source: Ires-Cgil, Ocde.

- A) The electoral core of the right corresponds to the third class (Independent, entrepreneurs, professionals). They have rather high incomes and express demands for a liberal policy. At this level, there is a compromise between financial rent and SME's interests: they want a liberalisation of the labour market, and real wages as an adjustment variable (Rangone and Solari 2011). The problem of Berlusconi is to open a new space of mediation between profit and rent without financial power play on the public debt. The answer he has chosen is simple: the adjustment takes place on the labour market through a downward flexibility of the real wage and a dismantling of the workers' status and the associated employment protections.
- B) The profit/rent compromise formed the base of the electoral core of the right, but this is not enough to win the election. Berlusconi need to build a second level compromise between his electoral core and classes (1) and (2): workers who are vulnerable, insecure, unemployed, present mainly in the South. The fundamental expectation of these classes is economic growth. They are not particularly concerned with employment protection or centrally bargained wage increases. These vulnerable workers play the role that the assisted classes had in the 1980s, when financial transfers to the south of the country were necessary to compensate for the high unemployment rate and economic backwardness. Since the early 1990s, there was a drastic slashing of these transfer payments, but no catching up of the South and unemployment is still at very high level. The outcome is a strong diffusion of economic insecurity (temporary, irregular work, etc.)

May the liberal policy that ensures the viability of the compromise at the first level (within the electoral core of the right) also be an effective mediation for the second level compromise (between the electoral core and precarious classes)?

Berlusconi has been trying since the 1990s to stabilise a compromise between the liberal core of his electoral base - located in Northern industrialized regions, particularly in the North East, which is characterized by a high density of SMEs - and the precarious classes, for the most part located in the South (Pisati 2010) . But this compromise is fragile for structural reasons, because of the difficulty to find a political mediation between demands stemming from extremely heterogeneous territories (Figure 15). GDP per capita in the Southern regions is below 60% of the North-Centre level. In 2008, the unemployment rate in the South in 2009 was above 12% against a national average of 7.8%. The labour market participation rate for the population aged 15 to 64 was 67.6% in the Northeast, 66% in the North-West, 62.3% in Centre and only 46.5% in the South. In this

latter region, over 20% of employed workers do not have an open-end contract, against less than 10% in the Centre/North regions (Source: Banca d'Italia).

The image of jobs without security being occupied by graduate students looking for a first contact with the labour market may be very popular in Italy but is totally false. In 2009, in a total of 3 751 000 workers without stable contracts, almost half (exactly 45.5% of the total) had left after the first level of secondary school. Among precarious workers, only 16% have a university degree at the bachelor level.<sup>26</sup>

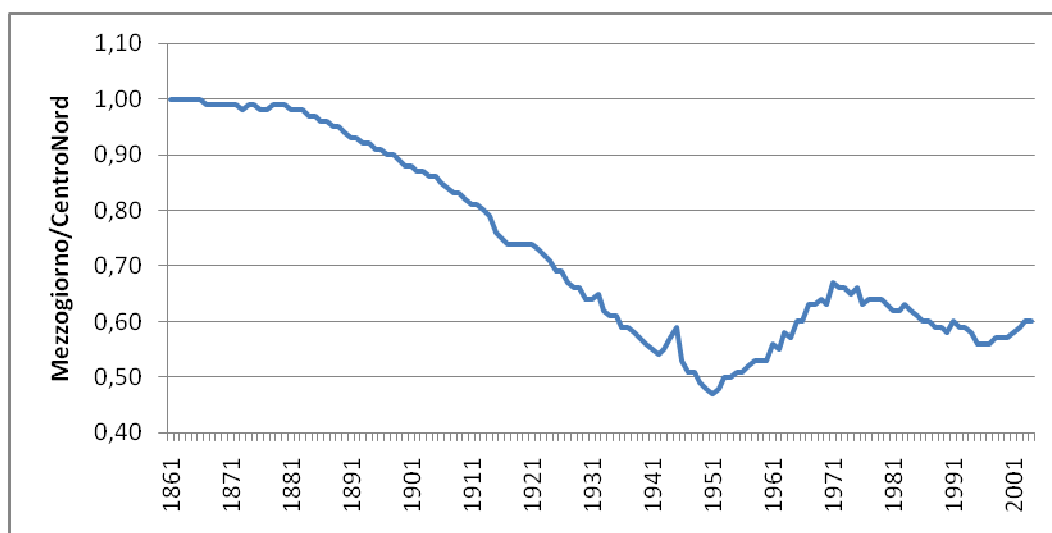


Figure 15. Relative GDP per capita in the South (w.r.t. the Centre/North), 1860-2004. Source: Pigliaru (2009).

In his first election victory in 1994, Berlusconi was allied to the Northern League in the North and to the National Alliance party in the South (AN), but the League and AN did not ally together. Instead, the League called for a reduction of taxes for the 'productive' classes of the North and fiscal federalism; AN accused the League of trying to sabotage national unity. AN requested the extension of financial transfers to the South; the League accused AN of being a centralist party which had not shed its 'fascist' legacy. The League was present exclusively in the North; National Alliance was primarily rooted in the South. Nine months after the election victory, the Northern League also left the government, resulting in the fall of the first Berlusconi government. Tensions between the two wings of the right-wing alliance occurred again during the second Berlusconi government. In 2004, Fini (leader of AN) obtained the resignation of the Minister of Economy Giulio Tremonti, regarded as too attentive to the needs of the League and not sufficiently attentive to the demand of economic development from the South. The same conflict took place again in 2010 under the third Berlusconi government. Meanwhile, AN merged with Berlusconi's party (Forza Italia) in the *Pole of Freedoms* (PDL). The dissatisfaction of some of the former AN particularly given the lack of a recovery plan after the financial crisis led to a split in the PDL and a new party created by Fini ('Futuro e Libertà'), which is now in the opposition to the Berlusconi government.

It should be noted that the Great Recession has hit Southern Italy harder than the rest of the country: in 2009, employment was down 4.1% in the south against a decline of 0.6% in North Central. It is clear that the absence of a recovery plan has mainly penalized precarious and assisted classes in the South, which explains the defection of Fini.

The situation can be analysed as follows. The crisis forced Berlusconi to choose between two strategies. Either (a) reactivate a state transfer and demand support policy to protect the most

<sup>26</sup> Source: Ufficio Studi Cgia, Mestre.

vulnerable group of the electorate, with the risk of tarnishing his image as a liberal reformer and disappoint its 'liberal' electoral base, or (b) give priority to the control of public finances. He opted for the second strategy. This move reinforced the first level compromise; it consolidated the core of its social base, but implied a risk, at least in the short-term, for the second level compromise. It strengthened the links between the Northern League and Berlusconi (Tremonti's strategy) but it also entailed difficulties with the former National Alliance.

The strategic choice of Berlusconi, very different and in fact almost opposite to that of Sarkozy, explains the extreme weakness of the recovery plan presented by the Italian Government in the 2008 Finance Act (Figure 16) and the unexpected turn of the Minister of Economy. Giulio Tremonti, who has been selected for this position in all three Berlusconi governments, had objected strongly to the rigour imposed by Brussels in the mid-1990s / early 2000s. In the presence of a crisis he was among the few to anticipate, he became the guardian of budgetary orthodoxy.

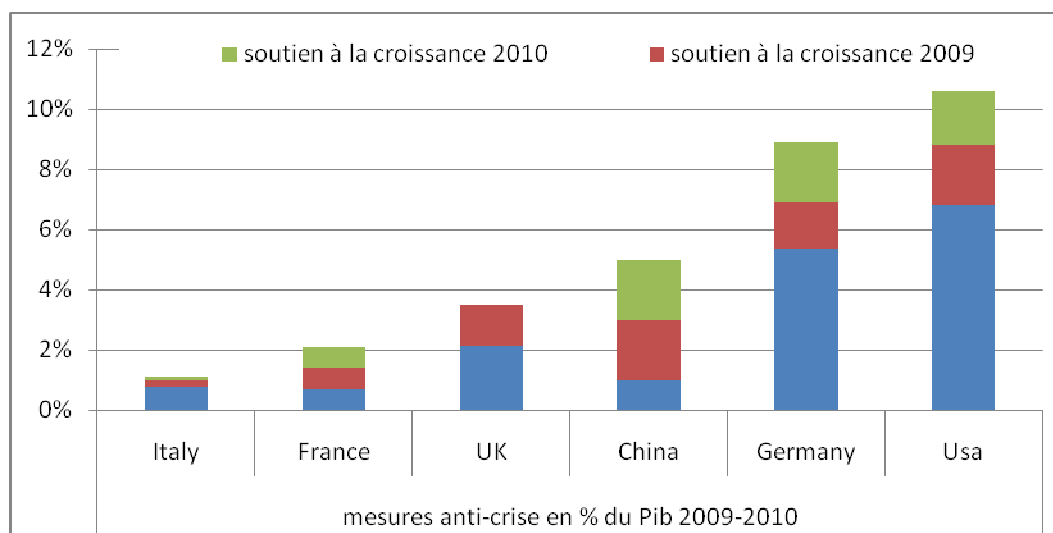


Figure 16. Anti-crisis plans in % of GDP 2009-2010. Source: Ires-Cgil, IMF.

The choice of austerity to face the Great Recession left the Italian government with a single tool to cope with the recession: a drastic decrease in labour costs, which should lead the end of the national contract and the dismantling of the welfare system. In this respect, the strategy chosen by Fiat - by far the largest company in the country - is very significant.

Fiat has for a long time benefited from significant and varied government support in terms of public procurement, support for restructuring, use of the 'cassa integrazione e Guadagni' and early retirement, tax concessions and so on. This has created a special relationship between Fiat and the various Italian governments, with the implicit exchange between on the one hand policy measures benefitting the company and on the other hand a commitment from the firm to give priority to development on the national territory. Gianni Agnelli, the leader and largest shareholder of Fiat for almost 40 years, who died in 2003, had several times had the opportunity to declare that Fiat was "genetically pro-government" and that "what is good for Fiat is good for Italy". One might also remember that the President of Confindustria (the Italian employers' association) from the post-war period until 2008 had been 'elected' after having been chosen by Fiat, with the exception of Antonio D' Amato (Chairman den 2000 and 2004).

With the designation of Sergio Marchionne as CEO and the acquisition of / merger with Chrysler, Fiat radically changed its strategy. Fiat became a company with "its heart in Italy, but several brains, some of them abroad" (Marchionne, hearing in the House of Representatives, 15 February 2011). The internationalization strategy implies that production may partly remain in Italy only on the condition that productivity there should be at least as high as in other production units:

for example Marchionne declared recently that “the Tychy plant in Poland by itself produces more benefits than the five Italian factories together. Fiat would work better if it left Italy” (TV interview to Rai3, 24 October 2010). The increase in productivity should be achieved at the cost of greater flexibility and lower cost of labour. This is the direction taken after the plant agreements voted in Pomigliano d'Arco (June 2010) and Mirafiori (January 2011). Beyond the deterioration of working conditions and new rules on the presence of trade unions in the firm involved in these agreements, the remarkable point is that they have been signed outside of the national bargaining framework.

Therefore the agreements of Pomigliano and Mirafiori mark a major turning point in the model of industrial relations in Italy. Emma Marcegaglia, president of Confindustria, was indeed initially opposed to the new strategy of Fiat. But following the outcome of the referendum at Mirafiori which validated (with a very narrow majority) the agreement, she finally admitted: “Until now, the logic was that the same policy should be applied to everyone. Today things are different. [...]. In the future there will still be cases such as Mirafiori, but some firms will also refer to a national contract, although probably less binding. [...] Each company should be free to choose the model of labour relations appropriate to its competitiveness: a greater flexibility is needed because the world has changed” (TV interview of 23 January 2011).

This shows that the inaction of the government following the crisis has laid the groundwork for a neoliberal initiative in the field of labour relations, without explicit intervention or risk-taking by the government. The government has limited its intervention to publicly support the actions of Marchionne. On 29 October 2010 in Brussels, Berlusconi declared for example: “When [Marchionne] said that Fiat would work better if it left Italy, he told the truth. (...). Today Fiat has to manage factories with excessive costs and unions that limit their action. In countries like China or India labour is cheaper and less subject to union leadership. And they work up to twelve hours a day.” Therefore, according to Berlusconi, “Marchionne must be thanked if he decides to stay in Italy.”

Faced with the Great Recession, Berlusconi decided to focus on expectations of the liberal hard core of its social base and to strengthen the alliance between profit and rent based on labour market's liberalisation. It remains to be checked whether this strategy will allow him to keep the support of the precarious and fragile classes. Presumably the effects on growth of liberal reforms will be crucial for the renewal of what we have called the ‘second level compromise’.

#### *b. The economic crisis is a problem for Sarkozy's strategy*

As mentioned before, the two social alliances which structured the French political life under the 5<sup>th</sup> Republic gradually decomposed during the 1990s. On the right side, there is a contradiction between the expectations of neo-liberalisation of the economy borne by the independents and the fears that drastic alterations of the French model in the areas of the labour market and social protection would lead to an increased insecurity of their situation expressed by the employees of the private sector. Ever since the failure of the 1986-1988 experience emulating the Anglo-Saxon “conservative revolution”, the right-wing RPR-UDF/UMP governments have tried to find a compromise between the divergent expectations of their social base. The second Chirac presidency marked the limits of this exercise, with a part of the social base as well as the government party expressing discontent against the alleged “immobility” of Chirac or its lack of “political courage” in the affair of the *CPE* labour contract. Following a massive wave of protest, the law instituting this contract with diminished social rights was promulgated and abolished at the same time. Sarkozy's solution was not to propose a return to Thatcherite neo-liberalisation but to propose a new compromise between the divergent interests of the right bloc.

A stable reunification of the right bloc demands that a solution be found to the contradiction between the demands for flexibility and neo-liberal reforms expressed by the independents and the demands for protection expressed by private sector employees (Table 7). Also, as seen before, a part of the popular classes were dissatisfied with the left government parties but still expressed demands

towards income redistribution and an increase in purchasing power (see the latent class analysis results in the Appendix). N. Sarkozy's search of a mediation led him to follow two directions. The first one is the promise of a possible rise in purchasing power by an increase of the labour supply; "to work more in order to earn more" was one of Sarkozy's campaign slogans. This took the form of a drop in taxes for overtime earnings and an easing of the regulation on overtime work. This had the advantage of emptying the 35-hour week regulation of its most social content contents without actually abolishing it,<sup>27</sup> while at the same time keeping and even extending the work organisation flexibility measures which had been part of the quid pro quo between the government and the trade unions at the time of the 35-hour law. The second direction was the assurance that the way followed for the flexibilisation of the labour market would be a French-style flexicurity and not pure and simple Anglo-Saxon style flexibility. To sum up, Sarkozy's project was some type of kinder, gentler neo-liberalisation or as the main campaign slogan had it, a '*rupture tranquille*'.

If that was sufficient to win the presidential election and the parliament election which followed, it was not enough to solve the contradictions between a neo-liberal transformation project of the French model and the realities of its Continental European institutions. Furthermore, the space for mediation between the neoliberal expectations and the demands for security shrunk drastically with the financial and economic crisis of 2008.

The program implemented by Sarkozy fell short of satisfying the right's neoliberal wing, which wanted a drastic deregulation of the labour market. Neither the lightening of taxes on extra-hours nor the pseudo-flexicurity seems to please neo-liberal economists Cahuc and Zylberberg (2009) for instance:

"By exempting overtime work from taxation and by making more flexible the regulations of the work day, the government managed to invent the machine to win more by working the same amount. Far from establishing a culture of work, the lifting of taxes on overtime work facilitates fiscal opportunism, because one has the possibility of paying less tax by exploiting the defaults of a badly conceived regulation." (Cahuc and Zylberberg 2009: 164).

Regarding employment legislation, the neoliberal ideal would be a unique labour contract with very limited protection, abolishing the distinction between regular and atypical work contracts. Here too, Sarkozy disappoints Cahuc and Zylberberg (2009):

"The law of modernization of the labour market [...] is supposed to set up the professional Social Security. The reality is very different. This law is not the proof of the success of Nicolas Sarkozy's method, but well and truly that of its failure. Left free to negotiate without precise directives, labour unions got on a minimal agreement reflecting the interests of those that they represent above all, namely the skilled and senior employees and the companies which employ them. In reality, the only noteworthy effect of the law of modernization of the labour market is to open the way for retirement at 57." (Cahuc and Zylberberg 2009: 29-30).

"The 'French-style flexicurity' is reduced to the birth of the conventional breach [of the employment contract] which will make retirement easier at the expense of the ASSEDIC [Organizations managing unemployment insurance payments] and to pointlessly lengthen the periods of unemployment of some highly skilled executives, at the expense of the ASSEDIC again. (...). At no time, did the government clearly address the core of the problem, namely *the absurd functioning of the labour market due to our redundancy law*. At no time did it ask the social partners to modify the definition of the redundancy." (Cahuc and Zylberberg 2009: 51, *our emphasis*).

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<sup>27</sup> The 35-hour week was considered positively by most social groups. Also, the flexibilisation side of the 35-hour week law is most appreciated by business interests.

The attempt to reconcile the contradictory expectations of the independents, who demand a strong liberalisation of the labour market, and private sector employees, which expect to keep a reasonably high level of social protection and/or employment protection, explains the apparently schizophrenic character of Sarkozy's discourse. He who took pride in being nicknamed *Sarkozy l'américain* because of its often-expressed naïve admiration of the US model of capitalism, who wanted to generalise asset-based credit for home acquisition and introduce a French-style subprime market (*Convention pour la France d'après*, Paris, 14 September 2006) and was more generally favourable to France emulating the Anglo-Saxon model as late as December 2007<sup>28</sup>, veered toward the German model in March 2008 ("we are going to do everything the way you did it, and that is true friendship", 3 March 2008), reverted back to Great Britain later the same month ("the UK has shown that there was a way in the global economy to reach a strong growth, full employment and solidarity... What is at stake for us is to take inspiration from the lessons of a successful experience, your experience", 26 March 2008).

Six months later, the financial and economic crisis led to another turnaround: "Self-regulation to solve all problems, this is over. *Laissez-faire*, this is over. The almighty market which is always right, this is over" (*Discours Toulon* 29 September 2008). And in front of the students of Columbia University, he is even sarcastic when mentioning Obama's welfare reform and the difficulties that the US President had to face: "welcome to the club of countries which do not leave their poor in the lurch [...] As for the idea that the poor should not be left alone and penniless in the streets, I am sorry but we solved the problem fifty years ago [...] If you come to France and something happens to you in the streets, you will not be asked to show your credit card before being admitted in a hospital." (Columbia University, 29 March 2010).

But if the financial crisis and the economic slowdown that followed gave a new lustre to the French model of capitalism and its social system, it was also the final nail in the French flexicurity's coffin. At the time when the economic slowdown led to a rise of unemployment (Figure 10), the French labour market's "rigidity" was perceived as an advantage rather than a drawback: 'the French model resists better in times of crisis' admitted OECD's General Secretary (Gurria 2009).

But the most serious problem results from the consequences of the crisis in terms of unemployment and public finance, following the growth slowdown. The long-term stability of a system of flexicurity requires that time spent in unemployment be short, with a generous compensation and an effective training for the unemployed. The economic crisis will have for consequence to make unemployment spells more frequent and longer than before. Moreover, because of the expectations of some groups within the right bloc, Sarkozy could not afford to ignore the demand for an expansionary policy and a financial system rescue plan, contrary to Berlusconi in Italy. France's reaction to the crisis has therefore been much more substantial than in Italy (Figure 16).

Slow growth, tax cuts and public expenditure in reaction to the crisis imply a growing public finance problem (Figure 17). This growth of the public debt is both a threat and an opportunity. It is a threat to the stability of the right bloc because it makes the security side of the flexicurity strategy financially unsustainable. It also implies a limitation to further demand-sustaining budget policy which could have for consequence to make the situation of a part of the broad group of private sector employees more fragile. It is also an opportunity for the pursuit of neo-liberal structural reforms since it enables the exploitation of a 'shock strategy': the financial situation allegedly makes welfare state retrenchment inevitable. However, this means that the financial crisis is at the heart of the problems behind the rift in the right bloc. The crisis has little consequences for the neo-liberal

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<sup>28</sup> "But one must note that some governments succeed in obtaining for their country a higher growth in the long run... What [the UK] has done, why should we not do it? What the English socialists understood, the French right could implement it." N. Sarkozy, *Discours de M. le Président de la République devant l'Assemblée des Entrepreneurs CGPME Lyon – Palais des Congrès*, 7 December 2007 (our translation).

core of the right bloc and will most likely push these groups towards more pressing demands for structural reforms and welfare retrenchment. The crisis is also making the situation of most private sector employees more precarious, leading them to oppose too drastic neo-liberal structural reforms.

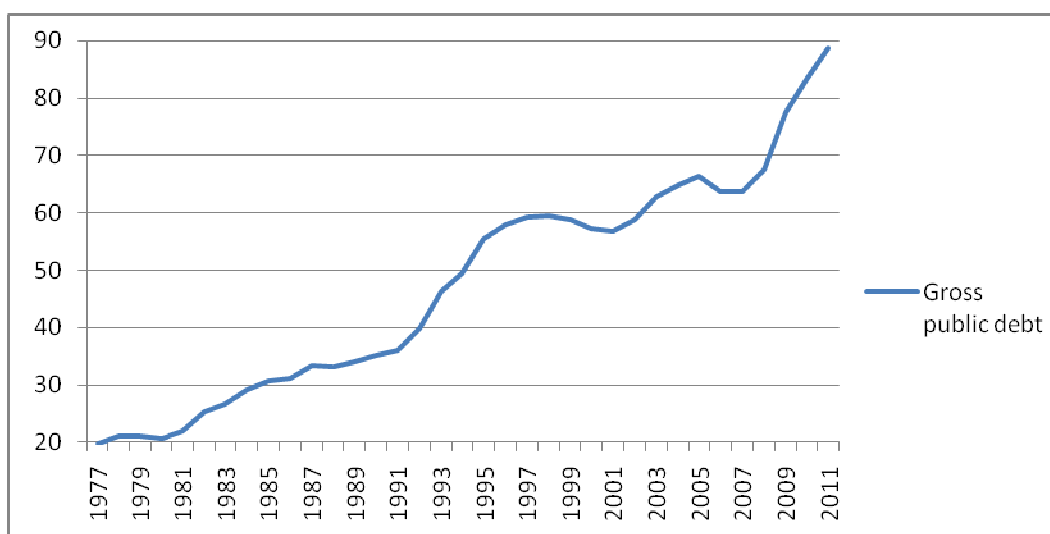


Figure 17. Gross public debt as a percentage of GDP, France.

In the absence of a very expansionary macroeconomic policy at the EU level, only a drastic decrease of the public spending on other posts than those related to the flexicurity strategy could make the way out of the public finance problem possible. But this remains quite unlikely both for economic and for political reasons. Part of Sarkozy's program was indeed to cut public employment, a move with limited political costs considering that civil servants are mostly outside of the right bloc. But realistic public employment cut will not provide the amount of resources necessary to the implementation of the security part of the flexicurity strategy. The flexicurity solution besides the fact that it may not produce the expected positive economic effects (Amable 2009) may thus be only an illusion, leaving the choice between the pure and simple flexibility at the risk of losing the employees of the private sector or the security at the risk of alienating the craftsmen and the storekeepers.



Table 7. France: social groups in 2007.

Class	Weight	Expectations	Vote
Workers : 33%; Clerks: 22%; Intermediate level employees: 20%	20%	Most important problems: 1. Unemployment; 2. Purchasing power. Favourable to income redistribution	Centre-left PS
Independents and high-level executives: 42%; Intermediate level employees: 25%	13%	Most important problems: 1. Education and training; 2. Environment and global warming. Favourable to neo-liberal reforms	Right UMP
Workers: 38%; Clerks: 19%; Farmers: 4.4%	13%	Most important problems: 1. Immigration; social inequality; 2. Unemployment. Favourable to income redistribution	Right UMP / PS
Executives and intermediary level executives: 49%; Inactive: 10%	9%	Most important problems : 1. Social inequalities; 2. Education and youth training	Left PS
Workers: 33%; Clerks: 24%; Inactive: 8%	9%	Most important problems: 1. Purchasing power; 2. Unemployment	Centre-left PS
Executive and intermediate level employees: 52%; Workers: 21%	9%	Most important problems: 1. Education and youth training; 2. Social inequality. Favourable to income redistribution	Left PS
Professionals and independents: 74%	6%	Most important problems: 1. Unemployment; 2. Purchasing power. Favourable to neo-liberal reforms	Right UMP
Workers and clerks: 40%; Intermediate-level employees and executives: 48%	5%	Most important problems: 1. Social inequality; 2. Unemployment. Favourable to income redistribution	Left / far left PS / PCF
Workers and foremen: 56%	5%	Most important problems: 1. Unemployment; 2. Crime	Right / far right UMP/PS/FN
Executives and intellectual professions: 31%; Health and social sector employees: 19%	4%	Most important problems: 1. Social inequality; 2. Education and youth training	Left / far left PS/PCF/NPA
Workers and clerks: 74%; Women: 63%	3%	Most important problems: 1. Unemployment; 2. Purchasing power. Favourable to income redistribution	Centre-left PS
Workers: 52%	3%	Most important problems: 1. Unemployment; 2. Immigration	Centre-left / far right PS

Source: panel électoral français 2007 (see the latent class analysis detailed in the Appendix).

## 6. Conclusion

In spite of apparent similarities, the analysis of the neo-liberal strategies in France and Italy reveal significant differences. The social bloc strictly in favour of neo-liberal reforms is a minority in each country. It has nevertheless a stronger economic base in Italy because of the industrial structure of this country: a larger weight of independents and small firms (Figure 18). A neo-liberal strategy in Italy demands that the classes supporting the neo-liberal model elaborate an alliance with classes composed of fragile and precarious workers ('outsiders') whose main demand is towards growth and employment. A neo-liberal strategy in France demands that the private sector executives and the independents have an alliance with private sector employees, whose status is far more protected than that of Italian outsiders. French private sector workers will in any case oppose "pure" neo-liberalism, i.e. reforms that would threaten their status. Hence the importance of the security side in the flexicurity strategy.

As exposed above, the economic crisis makes this alliance increasingly difficult to hold. The situation is different in Italy. The crisis may be a problem for Berlusconi when the situation of the outsiders deteriorates drastically. However, the centre-left has no more credibility on this matter. This explains why the centre-left also tries to target the outsiders by following the footsteps of the French neo-liberal economists and proposing the adoption of the unique labour contract:<sup>29</sup> a small improvement in employment protection at the cost of a loss of status for the core industry workers. The outcome may be a loss in electoral support.

This contrasts with the possibilities open to the French left. Having disappointed the private sector employees both in terms of purchasing power and social protection, Sarkozy's right has little left to offer as a substitute. On the other hand, the left could be credible in promising to maintain the level of social protection and hence hope to aggregate the groups composed with private sector workers to the core left group. However, this would demand a drastic turn in the socialist party's policy, whose quest for a centre-left alliance for the past 25 years has been directed against an alliance with the working classes.

Italy's (lack of) reaction to the economic crisis with a substantial recovery plan also sets it apart from France. The recession is part of Berlusconi's strategy of making the neo-liberal reforms 'indispensable'. It also satisfies the 'Northern' part of Berlusconi's alliance, whose demands are towards restrictive macroeconomic policy. The situation is different for the Southern part of the alliance, and the recent conflict between Berlusconi and Fini may thus find an explanation based on Berlusconi's choice of economic policy and, implicitly, of social groups to favour within his social base.

The situation is different in France since Sarkozy was aware that the private sector employees were a crucial addition to the core right-wing neo-liberal groups. The modest results of the recovery plans forced Sarkozy to make a more drastic neo-liberal turn and use the worsening of the public finance as an excuse for pushing the pension reform on top of the political agenda. This strategy entails risks of losing a sizeable part of the private sector employee group, and particularly the workers. The recent acceleration in Sarkozy's loss of confidence among the electorate may be an illustration of the dangers of this strategy (Figure 19).

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<sup>29</sup> Here's how you pass the 'apartheid' between protected and precarious. Pietro Ichino, *L'Unita*, 13 April 2010.

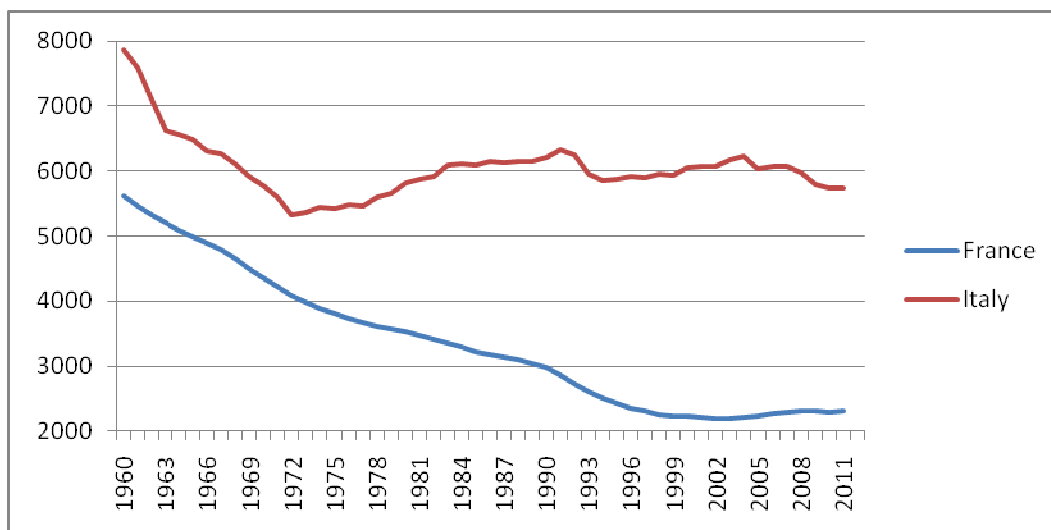


Figure 18. Number of self-employed (1000).

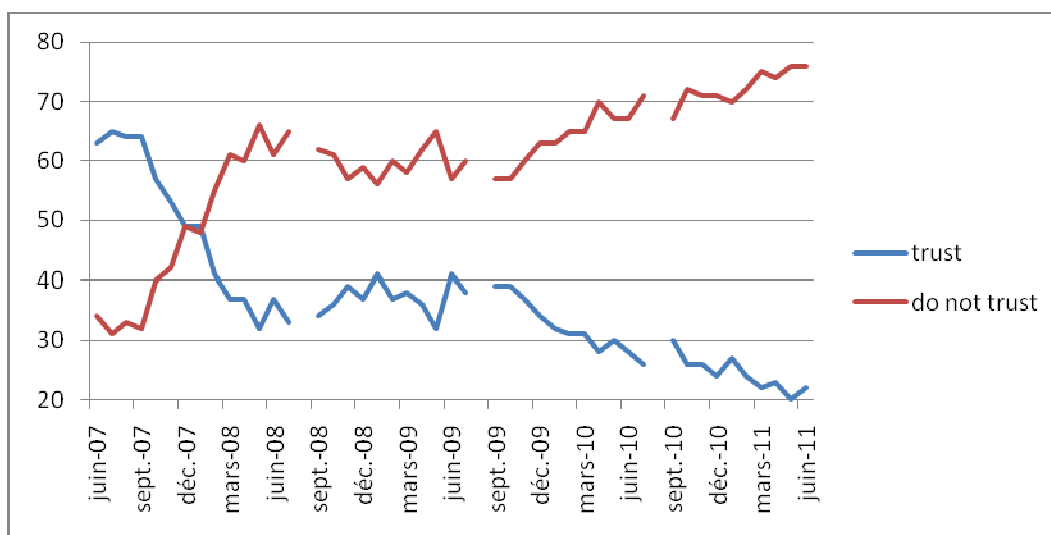


Figure 19. Opinion poll: do you trust Nicolas Sarkozy to solve France's current problems? June 2007-June 2010. Source: TNS-SOFRES.

## Appendix

Table A1. Italy: important structural reforms.

Area	Government	Reform
Product market regulation		1991 Liberalisation of energy production
		1992-2001 Privatisation of State holdings
		1994 Creation of regulation authorities: energy, telecommunication, water
		1998 Adaptation of railway activity to EU regulation; separation of infrastructures and services
		2006 Deregulation of pharmacy, taxis, minimum fee for liberal professions...
Social protection	Amato	1992 First pension reform, increase in the contribution period, introduction of pension funds
	Dini	1995 Pensions from defined benefits system to defined contributions (Dini Law)
	Prodi	1997 Prodi law: tighter requirements for seniority pensions
	D'Alema	2000 Tax incentives for pension funds
Financial sector		1986 Liberalisation of capital movements and exchange controls
		1990 Privatisation of State-owned banks; foundations are created by separating the business from the charitable activity of local savings banks
	Amato	1992 Universal banking and de-specialisation of credit institutions is reintroduced; stock companies and cooperatives (including popular banks) are the only forms of banks allowed (public interest and savings banks disappear)
		1993-1998 Privatisation of banks and transfer of local banks' capital into foundations
		1997 Favourable fiscal regime for stock options
		1999 Privatisation of banks' foundations
		2009 In case of takeover bids, listed companies have to refrain from resisting the bid
Labour market		1984 Cuts in the wage indexation mechanism ( <i>scala mobile</i> ). The law was preceded by a social pact which excluded the left-wing Union (CGIL), and by a government urgency decree
		1987 Use of fixed-term employment contracts in permanent jobs is allowed
		1992 Elimination of the wage indexation mechanism ( <i>scala mobile</i> )
		1993 Two wage bargaining levels: centralized for inflation forecast-related increases and firm level for productivity-related increases

		1997 'Pacchetto Treu' introduces temporary work, which was previously illegal; favours part-time working
		2003 'Legge Maroni' introduces new kinds of flexible labour contracts, with less workplace protection and reduced social security entitlements; interim employment agencies become employment agencies; abolishes L.1369/1960: interim labour becomes effective and also applied to permanent jobs (staff leasing); Co.co.co are replaced by 'project contracts'
	Prodi	2007 Permanent interim jobs are abolished, only fixed-time jobs are admitted (up to 12 months, extended to 36 maximum); call-up jobs are limited to tourism and few other cases

Source: Rangone and Solari (2011).

Table A2. France: important structural reforms.

Area	Government	Reform
Labour market	Chirac (RPR)	1986 .The administrative authorisation in case of individual dismissal for economic reasons is abolished. Administrative authorisation was previously required only for collective dismissals of more than 9 employees.
		1986. Introduction of “intermittent” work contracts (containing provisions for temporary interruptions of the work activity).
	Beregovoy (PS)	1993. Statutory requirements are introduced concerning the contents of social plans. If there is no social plan or the measures proposed are inadequate, the redundancies will be considered invalid.
	Jospin (PS)	1998-2000. Aubry laws. 35-hour week for firms with more than 20 employees and progressively extended to all firms. Working time computed on an annual basis (increased flexibility). Cuts in firms’ social contributions.
		2001 More flexible conditions for implementing the transition to the statutory 35-hour working week for companies with fewer than 20 employees. These companies will be able to use more overtime without having to give employees some time off in compensation
	Raffarin (UMP)	2004. possibility to adapt or waive the stipulation of sector agreements on working hours to the specific needs of each business
		2005. Extension in time and scope of derogations to the 35-hours working week
	Villepin (UMP)	2005. New type of open-end contracts, CNE and CPE, respectively for new recruits in small firms up to 20 employees and workers under 26, allowing for easier firing (without reason or severance payment) within 2 years
	Fillon (UMP)	2007. Fiscal regime more favourable to extra-hours
		2008. extended possibilities for breaking up a work contract by mutual agreement
		2009. One stop job centre: <i>Pôle Emploi</i>
Social protection	Rocard (PS)	1988. Creation of the RMI (means-tested minimum allowance) for adults over 25
	Balladur (RPR)	1993. Minimum contribution period to have a full pension extended from 37,5 to 40 years for private sector employees
	Juppé (RPR)	1995.Failed reform to extend to the public sector the 1993 pension reform measures and to end the “special regimes” of social protection of the public sector
	Jospin (PS)	2001. tax credit or ‘negative taxation’ subsidising the pay of workers on low wage

		2002. Reduction in the unemployment allowance duration
	Raffarin (UMP)	2003. Convergence of private and public pension regimes. Foundations for a 'third pillar'
	Fillon (UMP)	2010. Pension reform. Legal (full) pension age set to 62 (67) years in 2018 instead of 60 (65).
Product market regulation / privatisations	Chirac (RPR)	1986-1987. CGE (later Alcatel), Paribas, Saint-Gobain, Société Générale, Suez, CCF, TF1 (television), Matra, Havas, Mutuelle générale française, Banque du bâtiment et des travaux publics : between 70 and 100 billion FF
	Rocard (PS)	1990. Post and telecommunication split into two companies: La poste and France Telecom
		1991. Crédit local de France
	Balladur (RPR)	1993-1995 Rhone-Poulenc, Elf Aquitaine, Renault (partly), UAP, Seita : 114 billion FF
	Juppé (RPR)	1995-1997 AGF , GGM, Pechiney, Usinor-Sacilor, CFNR, BFCE, Bull: 40 billion FF
		1997: separation of railway infrastructures from services
	Jospin (PS)	1997-2002. Air France (partly), motorways, Credit Lyonnais, France Telecom (partly), Eranet, GAN, Thomson multimedia, CIC, CNP, Aerospatiale (partly, later EADS): 214 billion FF
	Raffarin (UMP)	2002-2005. France Telecom, Snecma, motorways 13 billion Euro (85 billion FF)
Financial system - corporate governance	Villepin (UMP)	2005-2006. motorways, EDF, GDF, SNCF
	Fabius (PS)	1984 Banking Act. Unified prudential rules for all financial institutions; the end of the division between commercial and investment banking. New banking supervisor.
	Beregovoy (PS)	1985-1986. Deregulation of financial markets (money markets, futures...)
		1988-1989. adoption of the European directive on freedom of capital mobility
	Jospin (PS)	1998. detaxing of capital gains / stock-options
		2001 Law on New Economic Regulations: competition law, corporate governance and merger procedures

Source: Amable, Guillaud and Palombarini (2011).

## Latent Class analysis on the French pre- and post-electoral survey: *panel électoral 2007*

Active variables:

1. The unemployed could find a job (if they really wanted to)

4 modalities of agreement/disagreement

2. Most important problem at the time of voting

List: environment and global warming; unemployment; immigration; social inequality; funding of social protection; crime; education and youth training; pensions; European integration; taxes; purchasing power; lodging; public debt and deficits

3. Second most important problem

Same list as above

4 modalities of agreement/disagreement with the following statements

4. One should increase the taxes for those with an income above 4000 Euros per month
5. One should create a ministry for immigration and national identity
6. One should compel firms that relocate their production abroad to reimburse state aids
7. One should replace only 50% of the retiring civil servants
8. The minimum wage should be raised to 1500 Euros per month as soon as possible

Rather positive or rather negative impact on the following government actions on one's personal situation:

9. The decrease in income tax
10. The pension reform
11. The implementation of the CNE

Agreement with the following measures (4 modalities of agreement/disagreement)

12. A minimum service in public transports in case of strikes
13. The suppression of the *carte scolaire*<sup>30</sup>
14. Stronger penalties for recidivists
15. Tougher conditions for already installed immigrants to bring their family to France
16. Have a share of social protection's funding assured by VAT (in lieu of social contributions)

Agreement with the following statement

17. The French society needs a radical change

And the following question:

18. Should priority be given to improving wage-earners' condition or the economy's competitiveness?

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<sup>30</sup> 'Carte scolaire' consists in a residence-based assignment of pupils to schools of the public sector.



In order to have a better description of the classes, a certain number of inactive covariates were added to the analysis.

Inactive variables: gender; age; education level; occupation; residence; opinion on various statements (reinstating the death penalty, there are too many immigrants in France ...), self-positioning on a left-right scale; propensity to take part in public demonstrations; judgment on French democracy; vote for the first round of the previous (2002) presidential election; vote for the referendum on the European constitutional treaty (2005); trust in the right or the left to govern France; presidential candidate proposing the best solutions; risk of being unemployed in the forthcoming months; preference for the majoritarian or the proportional representation system; judgment on the rhythm of the reforms; easy or difficult to live with the household's income.

The choice of the number of classes was made by assessing the significance of adding an additional class to a given model with the conditional bootstrap (based on a difference log-likelihood test). The analysis led to the selection of a 12-class model. The 12 classes and their main characteristics are given in what follows.

### **Class 1            19.67%**

Workers : 33%; Clerks: 22%; intermediate level employees: 20%

Education level: 60% have no end of secondary education degree

54% live in agglomerations under 20000 inhabitants

Most important problem: 1. Unemployment; 2. Purchasing power

Favourable to an increase in taxes for revenues over 4000 Euros per month (63%)

Favourable to a 50% replacement of retiring civil servants (72%)

Undecided about making it more difficult for immigrants already in France to bring his or her family

Vote in the first round of the 2002 presidential election: Jospin 24%, Chirac 16%, Le Pen 9.5%

57% think they have some risk of being unemployed in the forthcoming months

Negative opinion on privatisations (65%)

Positive opinion on the 35-hour week (51%)

Preference for the proportional representation system (71%)

Favourable to having left and right in the same government (75%)

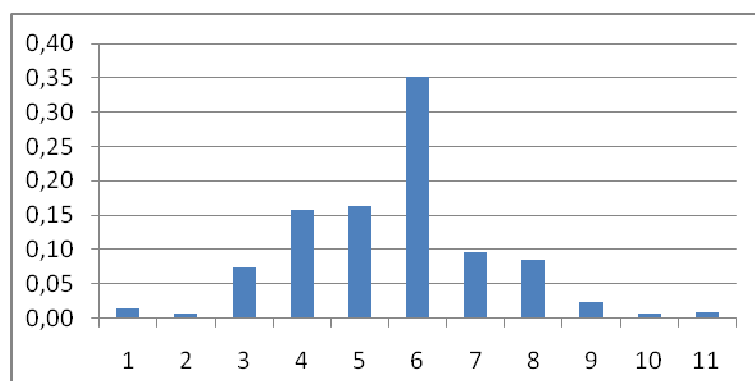


Figure A1. Self-positioning on a left-right scale (histogram).

### **Class2            13.42%**

Independents and high-level executives: 42%; intermediate level employees: 25%

Education level: 67% have end of secondary education degree or above

Most important problems: 1. Education and training; 2. environment and global warming

61% think that unemployed could find a job (if they really wanted to)

Favourable to a 50% replacement of retiring civil servants (60%)

Against a raise to 1500 Euros per month of the minimum wage (63%)

Priority should be given to improving French economy's competitiveness (over improving wage-earners' situation)

Positive appreciation on the CNE

Favourable to the suppression of the *carte scolaire*

Favourable to tougher constraints on the possibility for immigrants already in France to bring their family

Favourable to a VAT-based financing of social protection

See themselves as rather right-wing (59%)

Consider that Sarkozy is the presidential candidate with the best solutions (40%)

Positive judgment on the functioning of democracy in France

Voted yes to the referendum on the European constitutional treaty (60%)

Voted for Chirac in the first round of the 2002 presidential election (41%)

Positive judgment on privatisations (65%)

Positive judgment on the EU

Easy to live with the household's income

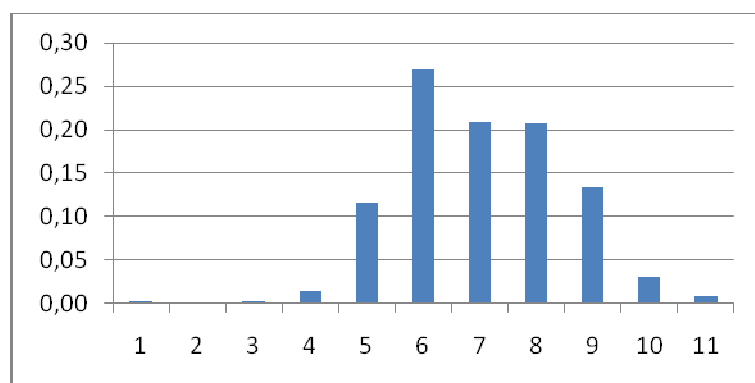


Figure A2. Self-positioning on a left-right scale (histogram).

### **Class 3      13.39%**

Workers 38%, clerks 19% farmers 4.4%

Most important problems: 1 immigration; social inequality; 2 unemployment

72% think that unemployed could find a job (if they really wanted to)

Favourable to an increase in taxes for revenues over 4000 Euros per month (63%)

Favourable to the creation of a ministry for immigration and national identity (73%)

Favourable to a 50% replacement of retiring civil servants (57%)

Favourable to tougher constraints on the possibility for immigrants already in France to bring their family

Consider that Sarkozy is the presidential candidate with the best solutions (31%)

Favourable to reinstating the death penalty

Think that there are too many immigrants

Voted no to the referendum on the European constitutional treaty (44%) or abstained (18%)

Vote for the first round of the 2002 presidential election: Chirac 24%, Le Pen 16%

Negative judgment on privatisations

Prefer the proportional system

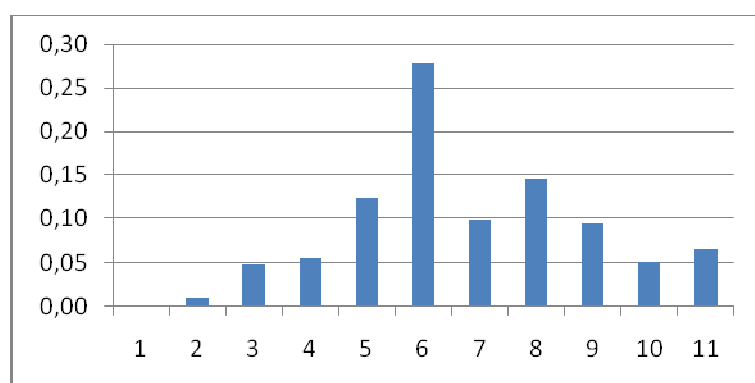


Figure A3. Self-positioning on a left-right scale (histogram).

#### **Class 4            9.21%**

Executives and intermediary level executives 49%, inactive 10%

Live in big cities or Paris (39%)

Most important problems: 1 social inequalities ; 2 education and youth training

Weakly favourable to an increase in taxes for revenues over 4000 Euros per month (55%)

Rather negative impact of the decrease in income tax

Against tougher constraints on the possibility for immigrants already in France to bring their family

See themselves as left-wing

Vote for the first round of the 2002 presidential election: Jospin 36%

Negative judgment on privatisations

Positive judgment on the 35-hour week

Easy to live with the household's income

Prefer the proportional system

Find the rhythm of the post-2007 reforms too fast

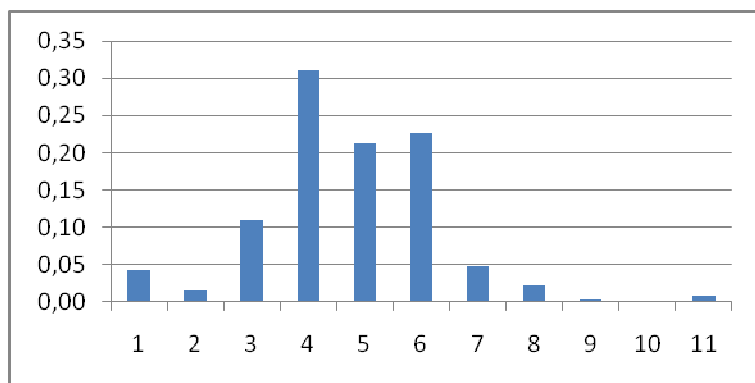


Figure A4. Self-positioning on a left-right scale (histogram).

**Class 5 8.91%**

Workers 33%, clerks 24%, inactives 8%

Women (62%)

Age<50 (78%)

Most important problems: 1 purchasing power; 2 unemployment

63% think that unemployed could find a job (if they really wanted to)

Favourable to an increase in taxes for revenues over 4000 Euros per month (66%)

Favourable to a 50% replacement of retiring civil servants (68%)

Vote for the first round of the 2002 presidential election: Jospin 25%; Chirac 20%

Some risk of being unemployed in the forthcoming months (57%)

Negative judgment on privatizations

Positive judgment on the 35-hour week

Prefer the proportional system

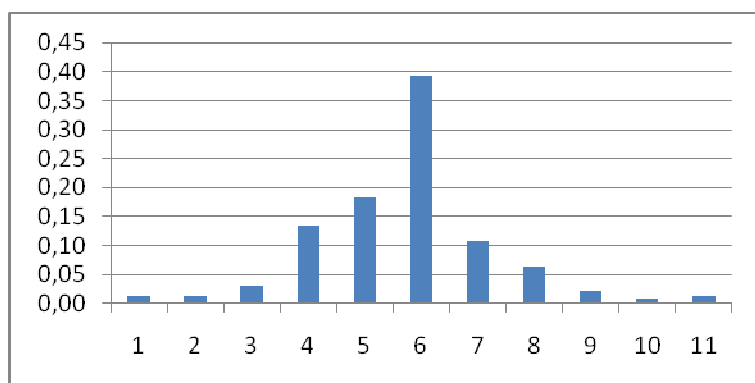


Figure A5. Self-positioning on a left-right scale (histogram).

**Class 6 8.81%**

Executive and intermediate level employees (52%), workers 21%

Women (57%)

Age<50 (78%)

Most important problems: 1 education, youth training; 2 social inequality

Favourable to an increase in taxes for revenues over 4000 Euros per month (62%)

Against tougher penalties for recidivists

Against tougher constraints on the possibility for immigrants already in France to bring their family

See themselves as left-wing

Vote for the first round of the 2002 presidential election: Jospin 30%; Besancenot 10%

Some risk of being unemployed in the forthcoming months (60%)

Negative judgment on privatizations

Positive judgment on the 35-hour week

Prefer the proportional system

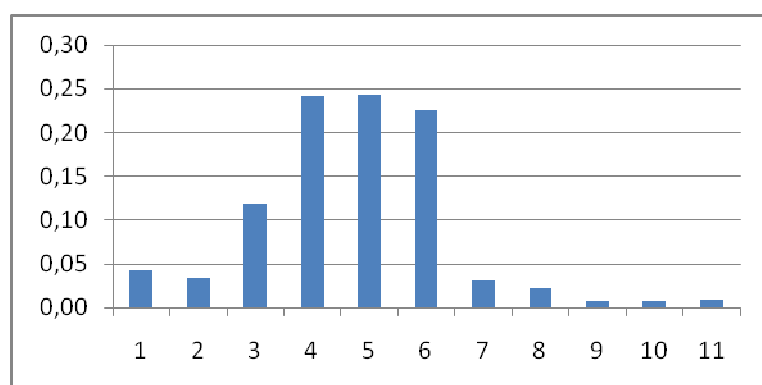


Figure A6. Self-positioning on a left-right scale (histogram).

### **Class 7            5.72%**

Professionals and independents (74%)

Most important problems: 1 unemployment, 2 purchasing power

72% think that unemployed could find a job (if they really wanted to)

Favourable to the creation of a ministry for immigration and national identity (82%)

Favourable to a 50% replacement of retiring civil servants (83%)

Against increase in taxes for revenues over 4000 Euros per month (78%)

Against an increase of the minimum wage to reach the level of 1500 Euros a month as soon as possible (59%)

Priority should be given to improving French economy's competitiveness (over improving wage-earners' situation)

Positive judgment on CNE

Favourable to the suppression of the *carte scolaire*

Favourable to tougher constraints on the possibility for immigrants already in France to bring their family

Favourable to a VAT-based financing of social protection

See themselves as rather right-wing (59%)

Consider that Sarkozy is the presidential candidate with the best solutions (63%)

Positive judgment on the functioning of democracy in France

Voted yes to the referendum on the European constitutional treaty (53%)

Think that there are too many immigrants in France

Vote for the first round of the 2002 presidential election: Chirac 53%; Le Pen 16.5%

Trust in the right-wing to govern France

Positive judgment on privatisations

Easy to live with the household's income

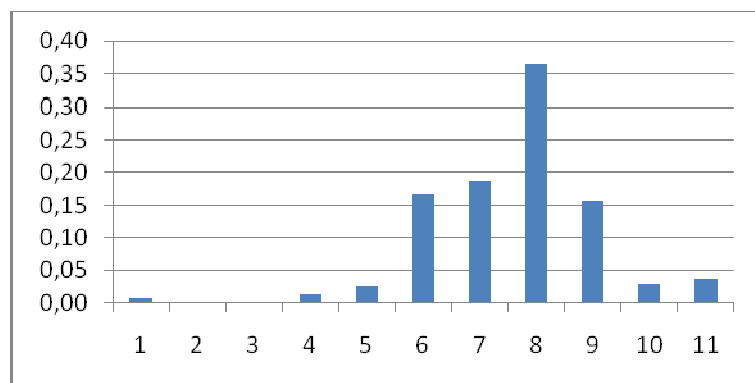


Figure A7. Self-positioning on a left-right scale (histogram).

**Class 8            5.44%**

Workers and clerks 40%, Intermediate-level employees and executives 48%,

Most important problems: 1 social inequality; 2 unemployment

Favourable to an increase in taxes for revenues over 4000 Euros per month (76%)

Negative judgment on the decrease in income tax rate and pension reform

Against a minimum service in public transport in case of a strike

Against higher penalties for recidivists

Against tougher constraints on the possibility for immigrants already in France to bring their family

See themselves as left-wing

Ready to participate to a demonstration

Voted no to the referendum on the European constitutional treaty (66%) or abstained (14%)

Vote for the first round of the 2002 presidential election: Jospin 34%; Besancenot 18% ; Laguiller 8%

Trust in the left wing to govern the country

Negative judgment on privatizations

Positive judgment on the 35-hour week

Prefer the proportional system

Find the rhythm of the post-2007 reforms too fast

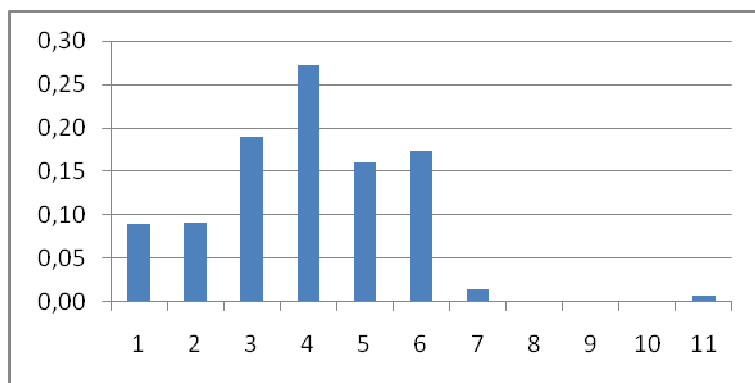


Figure A8. Self-positioning on a left-right scale (histogram).

**Class 9 4.85%**

Workers and foremen 56%

Most important problems: 1 unemployment; 2 crime

100% think that unemployed could find a job (if they really wanted to)

Favourable to an increase in taxes for revenues over 4000 Euros per month (88%)

Favourable to the creation of a ministry for immigration and national identity (82%)

Favourable to a 50% replacement of retiring civil servants

Positive judgment on CNE

Vote for the first round of the 2002 presidential election: Chirac 23%, Le Pen 23%; Jospin 19%

Presidential candidate with the best solutions: Sarkozy 32%,

Favourable to the reinstatement of the death penalty

Find that there are too many immigrants in France

Negative judgment on privatisations

Prefer the proportional system

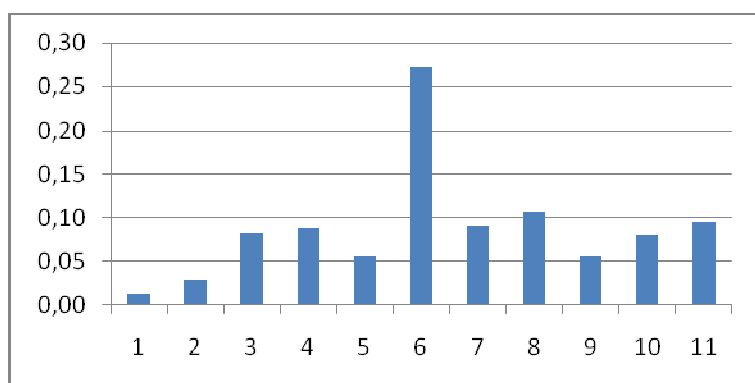


Figure A9. Self-positioning on a left-right scale (histogram).

**Class 10 3.65%**

Executives and intellectual professions 31%; health and social sector employees 19%

Parisians 32%; big city dwellers 24%

Most important problems: 1 social inequality; 2 education, youth training

Favourable to an increase in taxes for revenues over 4000 Euros per month (86%)  
 Negative judgment on the decrease in income tax rate and pension reform  
 Against a minimum service in public transport in case of a strike  
 Against higher penalties for recidivists  
 Against tougher constraints on the possibility for immigrants already in France to bring their family  
 Ready to participate to a demonstration  
 Voted no to the referendum on the European constitutional treaty (67%)  
 Vote for the first round of the 2002 presidential election: Jospin 26%; Besancenot 24%; Hue 19%  
 Trust in the left wing to govern the country  
 Negative judgment on privatizations  
 Positive judgment on the 35-hour week  
 Prefer the proportional system  
 Find the rhythm of the post-2007 reforms too fast

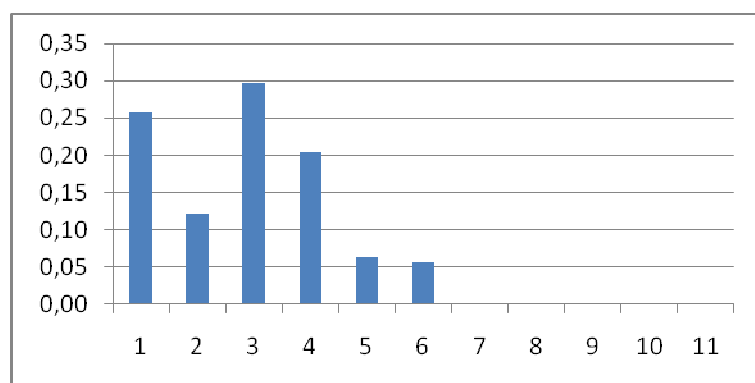


Figure A10. Self-positioning on a left-right scale (histogram).

#### **Classe 11 3.49%**

Workers and clerks (74%)

Women (63%)

Most important problems: 1 unemployment; 2 purchasing power

89% think that unemployed could find a job (if they really wanted to)

Favourable to an increase in taxes for revenues over 4000 Euros per month (79%)

Favourable to the creation of a ministry for immigration and national identity

Favourable to a 50% replacement of retiring civil servants

Negative judgment on the decrease in income tax rate and pension reform

Against a minimum service in public transport in case of a strike

Against tougher constraints on the possibility for immigrants already in France to bring their family

See themselves as left-wing

There are too many immigrants in France (64%)

Voted no to the referendum on the European constitutional treaty (49%) or abstained (19%)



Vote for the first round of the 2002 presidential election: Jospin 25%; Chirac 18%; Le Pen 11%; Hue 8.6%

Some risk of being unemployed in the forthcoming months (57%)

Negative judgment on privatizations

Positive judgment on the 35-hour week

Prefer the proportional system

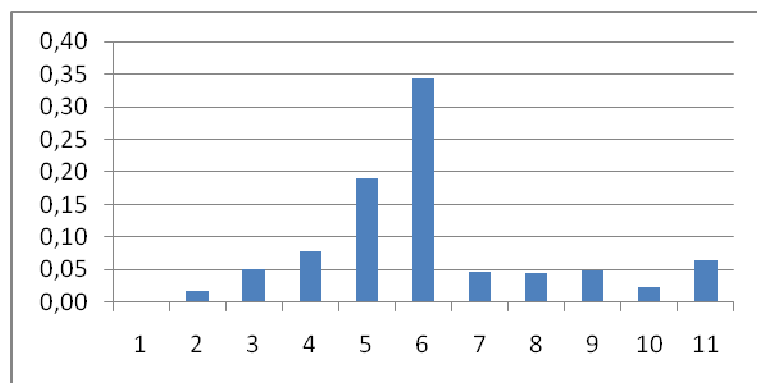


Figure A11. Self-positioning on a left-right scale (histogram).

## **Class 12      3.44%**

Workers 52%

Most important problems: 1 unemployment; 2 immigration

77% think that unemployed could find a job (if they really wanted to)

Favourable to the creation of a ministry for immigration and national identity

Favourable to a 50% replacement of retiring civil servants

Against tougher constraints on the possibility for immigrants already in France to bring their family

See themselves as left-wing

Voted no to the referendum on the European constitutional treaty (43%) or abstained (23%)

Vote for the first round of the 2002 presidential election: Chirac 25%; Jospin 23%; Le Pen 18%

Favourable to the reinstatement of the death penalty

There are too many immigrants in France

Some risk of being unemployed in the forthcoming months

Negative judgment on privatizations

Positive judgment on the 35-hour week

Prefer the proportional system

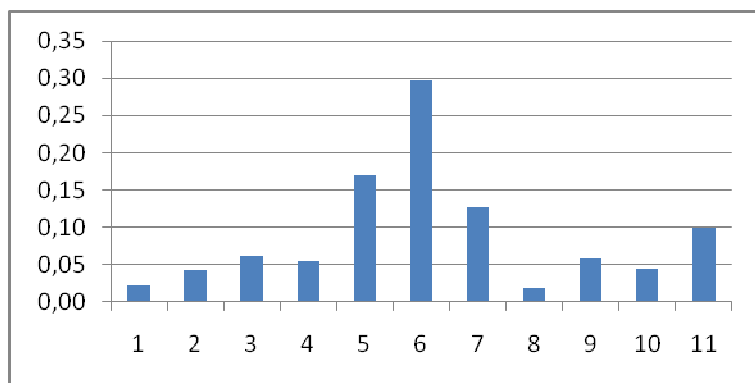


Figure A12. Self-positioning on a left-right scale (histogram).

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